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letters TO THE EDITOR

Challenge invites your comments. Address letters to Challenge, 475 Fifth Avenue, New York 17, N. Y.

Government spending

•You say that government's cost of living has risen and intimate that it is unreasonable to expect reduction in government spending without sacrificing important services [*Challenge Notes*, November 1957, page 6].

But not a word to suggest economy in government's household. Careful study of the Hoover Commission Report would tell you of the wanton waste of overswollen government and about five billion dollars in taxes which could be saved without ending *any* essential government service.

ERNEST C. HASSELFELDT
Chicago, Ill.

Refreshing addition

•The *Personality-of-the-Month* department is a refreshing addition to an already fine magazine.

HARVEY QUILLAN
Utica, N. Y.

Over the hump

•I think the November issue rates even a bit higher than the average. And for the first seven pages that I have read of the December issue: a loud "Hurrah."

After enjoying my first seven and one-half issues—although resubscribing twice in the meantime—I piled up the next 20 issues, without more than leafing through them, because I didn't feel like reading CHALLENGE perfunctorily.

At length, my 29th issue arrived; I read it entirely. It seems that I had got over the hump. I went back 20 and one-half issues and started reading at a rate of about 2.25 issues a month, in addition to the current ones.

So I feel that CHALLENGE is worth its cost if only to read a letter from someone who wants to cancel his subscription.

A question which I do not expect you to answer, but one which will never cease to be a source of curiosity for me, is: How many people who are in a position to affect important decisions, or at least stimulate rational thinking, read CHALLENGE? Or, how many people who read CHALLENGE are in a position to affect others to any considerable degree?

J. DAVID BECKLEY
Fairbury, Ill.

We are gratified that you find CHALLENGE *worth reading.*

In reply to your inquiry concerning who reads CHALLENGE *and who might be in a position to affect important decisions, we are pleased to*

report that the Legislative Reference Service of the Congress subscribes to several copies of CHALLENGE *each month, along with various other important governmental departments. We work closely with schools and organizations which service schools. Industry, aware of its responsibility, also is well represented on its higher echelon in our subscription files. Employee education programs use* CHALLENGE *regularly. Top journalists and syndicated columnists read* CHALLENGE *and quote from it. Articles are often reprinted by the U.S. Information Agency and translated into many foreign languages for distribution overseas.* CHALLENGE *even travels behind the Iron Curtain.*

We shall continue efforts to make CHALLENGE *more meaningful and hope that you continue to read it. We welcome your comments.—Ed.*

Re: Better Mousetraps

•A couple of weeks ago I wrote to addresses supplied by you in your *Dept. of Better Mousetraps.* I have had no reply, although I mentioned CHALLENGE in my letters. I suggest that in the future you communicate with your *Better Mousetraps* builders and ascertain their correct addresses.

OWEN S. PAYNE

Ridgefield, Conn.

We have no formal arrangement with the manufacturers and distributors of items mentioned in Dept. of Better Mousetraps. Our information comes from independent sources, and we must rely upon them for correct addresses, etc. When mistakes are made, we can only do our best to right them.—Ed.

Important force

•I think you would like to know that I have received an unusually strong favorable reaction to my article, *Franchised—but Independent.* [August-September 1957, page 67]. I have received a number of letters from readers of the magazine requesting further information on this subject.

Furthermore, at least two of my current students in sales promotion registered for the course after reading the article. One man, the display manager for Rayco auto seat covers, tells me his firm has made 50 copies of the article for distribution to its outlets.

I am amazed at the pulling power of your publication. It certainly is becoming an important force on the popular economic scene.

ALFRED GROSS

New York, N. Y.

One good turn. . .

•I am a subscriber to CHALLENGE, and attend a class in adult education on matters which are affected by current economics. At last night's class I offered to give a gift subscription to any and all members of the class who want one.

In pursuance of this objective, I would like to distribute sample copies of your magazine. Will you, therefore, send me 30 copies of a late issue?

I shall be glad to send you a check in payment.

LOUIS F. KATZ

Boston, Mass.

We are pleased to supply your class with 30 copies of the latest issue, at no cost. Should more than five individuals wish to subscribe as a result of your initiative, the charge under our club plan will be only $1.75 each, per year. Your own renewal, whatever the date, may be included, if you wish.—Ed.

a personal note

from the editor

the shape of things we don't want to see come

APPARENTLY the United States of America have decided that this nation will not lie down and die before the post-Sputnik challenge of the Soviet Union. The first shocks of self-criticism have passed, and we do seem to have the spirit to wipe the slate clean and have another try at attaining the qualities of greatness. How long the spirit will prevail once the flesh feels the material pinch remains to be seen. The chances are very good, however, that for some time to come the American people will be willing to pay the tab, however reluctantly. To be blunt about it, do we have a choice?

Even more interesting than whether our spirited rebuttal can maintain its present elevation is the question of how much of "old" America will be left when the contest with the Soviet Union finally is resolved. To be sure, it is highly unlikely that Russian society will resemble its current self when the massive struggle is done. But right now we are concerned with the American prospects, so perhaps we can be excused for letting the Russians worry about themselves.

Some aspects of what is in store for us are just now coming into view. The 40 billion dollars that we shall start spending on arms come next July 1 will be 50 billion dollars by July of 1960; and three years after that 60 billion dollars for preparedness would not be an outrageous figure. The national product would have to exceed 550 billion dollars to keep a 100-billion-dollar federal budget in roughly the same proportion that it now has to the current GNP. It is very probable that the American citizen of 1960 cannot have a standard of living appreciably higher, in a material sense, than he enjoys today. Perhaps there will be other rewards after 1960, but for the moment they remain indefinable. And it is this lack of definition that hides the most fearsome changes that could take place in America. A good part of this obscurity hides the prospect that we shall have to act like the Russians if we intend to beat them. This, of course, is what we want to avoid doing at any cost, except annihilation.

What we (and the rest of the world that wants to listen) should

never forget is that the Russians have inured themselves, through conviction or prudent compliance, to pay the costs and endure the consequences of single-minded persistence. Be it a Sputnik or giant canal projects, the reversal of the flow of rivers or the dream of melting Arctic snow caps, a revolution in agricultural organization or the building of a supergiant structure in Moscow (the most famous hole in the ground for 17 years) Russian society will give these things a try, and often succeed, once the decision to go ahead is made. The costs are immaterial. The lag in other crucial fields of endeavor, while appreciated, have little effect on the zeal to proceed with the specified task at hand. This is sheer stubbornness. It is cruel and certainly inefficient; but come what may such a system can hit a target once it sets its sights. It is a society that has mass, but no form. It has energy, but its vector lines are scattered. It is so unpredictable that it cannot predict its own actions. But it packs a terrific wallop upon contact.

This is the adversary that the United States must contend with. The Russians have flung down the gauntlet to the Western world, and we have to pick it up, if for no other reason than the fact that we don't like being stepped on while they work off the boils of their revolution. In fact, at this stage of the game we don't know what the Russians want. They seem to want everything, and they say they want nothing. All we know is that they will go to any length—even 500 miles up—for the things they say they don't want.

Our problem is: How far do we dare go to meet the Russian challenge, without risking a loss of touch with the America we want to defend? Will we spend ourselves into bankruptcy? Will we ourselves become a shapeless mass, slavishly serving the shibboleth of defense? Will life and the individual become atrophied into a Spartan discipline and barrenness? This is not what we want. But how shall we know when we are going too far? Here is one criterion: if by 1960 the butter in the economy is insufficient to keep the consumer king and in somewhat the same strong position he has had since 1950, then we are losing the America we knew, even while keeping her safe.

I feel confident that we shall find the capacity to produce the marvelous symbols of a national effort, while at the same time leaving the individual with enough resources to exercise a sizable discretionary spending power. There are those who say that this cannot be done. I say it can be done. And I am willing to bet that it will be done. If I lose, you can have everything that is left.—H.B.

Challenge Notes

The economics of Sputnik; the pain of work

WHEN CONGRESS convened last year, the key word was "economy." Unless expenditures were cut, we were told in and out of Congress, we would spend ourselves into a hair-curling depression. A real "grass roots" movement for the kind of government economies that result in tax cuts led to some heavy, and sometimes pretty reckless ax-wielding.

The mood of this post-Sputnik Congress is clearly in the other direction. Today, Congress and the public are worried whether the President's record peacetime budget of 73.9 billion dollars is enough. Although 64 per cent of the total spending is slated for defense and related national security expenditures (including foreign aid), many military analysts feel that this is still inadequate to meet the very real Soviet missile threat. Indeed, we should not be at all surprised if the President's national defense request is considerably increased before Congress adjourns.

On the whole, we feel that this change in mood is a welcome recognition of the unhappy facts of life in the cold war age. If it does nothing else, the history of last year's budget clearly shows why advocates of government economy sometimes appear to be fighting a losing battle. Last year the President estimated a budgetary surplus of 1.8 billion dollars for fiscal 1957-58, but revised estimates now indicate a deficit of 400 million dollars, instead. Declining tax receipts as a result of the current slowdown in business activity are part of the reason for this shift; but the basic explanation is an increase in defense expenditures (in the form of separate appropriations) above the original estimates. And while the Administration hopes for a precarious surplus of 500 million dollars for fiscal 1958-59, few economists (or Congressmen for that matter) would be willing to place any bets.

Does this mean that "economy" in government is an unattainable ideal in the post-Sputnik era? If we understand economy to mean

substantial reductions in over-all government expenditures in the near future, then we fear the answer must be "yes."

But if we understand by economy the intelligent allocation of resources to produce the maximum of government service at the minimum cost, then the outlook appears very much brighter. Real economy in government is much more than the elimination of waste and duplication, although that, too, is important. Real economy demands that we look at the entire economy, and not only at government. For, clearly, it is not only government which will have to tighten its belt, but all of us. If we want bigger and better missiles than the Russians—and our very survival, and that of our allies, may well depend on it—we shall have to pay for them in the form of higher taxes, or fewer government services, or less personal consumption, or all three. True economy resides in getting the most effective kind of security by choosing the least unpleasant of these sacrifices.

"Painful" work

IT IS not only in the economic realm that Sputnik is forcing us to re-examine some of our most cherished beliefs. Ever since the Russian earth satellite was first launched, the press has been full of unflattering comparisons between the Soviet educational system and our own. Ivan, it seems, is forced to study calculus and physics, while his American counterpart all too often is taking courses on how to behave on a date or, to take one extreme example, how to make himself understood on the telephone. As a result, the Soviet Union is turning out more engineers and scientists than we are. Sociologists, psychologists and educators looking for the reason for our slipping lead in the sciences suggest a reason for this: Johnny has been encouraged by our educational system to take the "easy" road to knowledge. Since there is no such easy road, Johnny's education suffers.

We believe that this argument is something of an oversimplification. Our educational system is not nearly as bad (and Johnny is not nearly as lazy) as these critics would have us believe. In spite of Sputnik, most experts believe that, on an over-all basis, we are still ahead of the Russians in science. If we are to stay that way, however, we shall have to rediscover some old truths. Just as business is finding out that, contrary to cherished belief, a "happy" worker is not necessarily a productive worker, so we shall have to rediscover the old truth that education, like growing up, can never be a completely painless process.—M.K.

A Closer Look at Money

What is its nature and how well do we understand it?

by Donald L. Kemmerer

EVERY inflationary change or deflationary pressure reaches into our pockets, affecting the value of our money, and thus, our fortunes. The most disparate events, a change in the discount rate, the blocking of the Suez Canal or the amount of business investment, affect our dollar bills despite the imperturable face of George Washington. How do such public matters achieve that intimacy with our small change? Just what is money?

The best way to understand money is to observe it, because "money is as money does." Money is a medium of exchange. There is reason to doubt that the American Indians had money when they first encountered white men 400 years ago. The Indians were living in a Stone Age, and each family was self-sufficient. Since there were no specialized craftsmen, there was virtually no trading, and since there was no trading, there was no need for money. When Indians began to trade a little with white men, the first articles which they used as money were tiny bead decorations called *wampum.*

Some 3,000 years ago the inhabitants of what were later Italy and Germany maintained large herds of cattle. People measured a man's wealth in terms of the number of cattle he owned. Thus, cattle were money. The Latin word *pecus,* meaning a head of cattle, became the Latin word for money, *pecunia,* and the English adjective *pecuniary* means monetary. How did they make change? The explanation is that cattle, as money, were used primarily, although not exclusively, as a *measure* of a man's wealth, rather than as a *medium* of exchange.

For centuries, people have made

use of the precious metals as money. These were rare, attractive and easily hidden commodities. Also, they maintained their value because of these unusual qualities. Thus they were a good *store of value,* which is a third important function of money.

The chief trouble with the precious metals was that every time they changed hands, the new owner had to check their weight and purity. To avoid that necessity, kings developed the practice of coining. The stamp of the king's mint showed that the coin contained a guaranteed amount of the precious metal, at least at the time of minting.

About 500 B.C., Darius of Persia caused pieces of gold to be stamped with the imprint of an archer. These crude coins were a highly respected money in their day. Money of this kind normally had the same value as a commodity as it did in exchange. If the trading value of gold fell, the owner could melt it and have it made into jewelry.

People gradually found more convenient ways of handling money. The early settlers of Virginia, nearly 350 years ago, sent any gold and silver coins that they had back to England to buy needed supplies. For local money they chose tobacco which many of them raised and which all were willing to accept in trade since it had a ready market in England. Tobacco was a cumbersome money, and many planters simply stored it in a public warehouse. They used their tobacco receipts as an early form of paper money.

Trouble did not arise from tobacco-backed paper money, but rather from the fact that every planter was growing his own "money trees." As the supply of the tobacco money increased, its purchasing power necessarily fell. Tobacco money was not as reliable as gold or silver, because people could readily increase the supply of the former, but not of the latter.

Nevertheless, merchants in Europe, especially in Holland, were having some difficulties in the 16th and 17th centuries with gold and silver coins. Many of the coins were old and worn, and there was much brigandage. One solution was to turn the coins over to a goldsmith and take a receipt in return. Such receipts were convenient money, easily concealed and thus more safely transported.

The goldsmiths knew it was unlikely that all their customers would demand their money back at once. Sometimes the goldsmiths loaned some of the coins that had been left in their hands despite the fact that this money was already

Donald L. Kemmerer is Professor of American and Financial History at the University of Illinois.

in circulation by proxy in the form of goldsmith deposit receipts. Sometimes they loaned deposit receipts to borrowers for gold and silver that borrowers had obviously not deposited, and hus hey became bankers. The paper receipts that they were issuing were not backed 100 per cent by precious metals. Yet this paper passed from hand to hand as money, and people had confidence in it.

"Bills of credit"

In the New World, what is often called the first government paper money was appearing in the American colonies. Massachusetts sent an expedition against the French in Quebec in 1690. The colonial treasury was nearly bare when the unsuccessful troops returned. Massachusetts paid them with "bills of credit," IOUs backed only by the promise of the government to levy taxes and redeem the bills. The experience taught colonial officials a too easy way of buying what they wanted without paying for it promptly. These IOUs were forced borrowings from the public without interest.

Soon all colonies were issuing bills of credit to pay for peacetime needs, too. The supply of such money grew faster than goods and services; accordingly, prices rose, or to look at it another way, the value of the Massachusetts shilling fell. In 1749, the colony offered to redeem the paper shillings *in silver*, at a rate of seven and one-half to one.

During the American Revolution, the Continental Congress and the state legislatures financed their military expenses largely by means of paper dollars, familiarly called "Continentals." So many were issued that by the war's end they were almost worthless. By the time the Constitution was drafted, many Americans had had their fill of paper money. The authors inserted a clause saying "No state shall . . . make any Thing but gold and silver Coin a Tender in Payment of Debts."

Down to about the Civil War, both federal and state governments believed that this forbade them to issue any legal tender paper money. There were many bank notes but these were supposedly redeemable on demand in gold or silver coin. Banks which did not redeem them were in disgrace, if not in bankruptcy.

The emergencies of the Civil War necessitated resort again to government "bills of credit," this time popularly known as "greenbacks." They were not redeemable in gold, and by the war's end they were much deflated. The nation did not get its paper and gold dollars on an equality again until 1879. Two facts are notable about this return. One was the strong public desire to see it accomplished. The

other was the unnecessary pain to which the nation put itself.

All during the 18th and 19th centuries, there was a growing effort on the part of the more advanced European governments to set up trustworthy money systems based on gold coins, silver coins, or both. If there were paper bills, they were to be redeemable in gold or silver coins. England virtually adopted a gold standard in 1717; the United States went on to a bimetallic (gold and silver) standard in 1792. After a disastrous paper money experience during the French Revolution, France returned to bimetallism in 1803.

Perilous moments

War forced England to cease redeeming her paper money in gold between 1797 and 1821, but once back on a gold basis she held to it, despite some perilous moments, until World War I began in 1914. Between 1848 and 1875, various wars and revolutions caused several nations to abandon their hard money standards, but most of them, like the U.S. and France, hurried back as soon as they could. During the last third of the 19th century, 20 nations adopted the gold standard; and by 1914, there were 40 or more such gold standard nations.

In the U.S., by the end of the Civil War, it took about twice as many greenbacks to equal a gold dollar as it had in 1860. Some people reasoned that collecting some of the greenbacks in taxes and burning them would return the dollar to its prewar value.

The basic trouble with trying to return the dollar to its former value was that such a policy would lower the price level, with painful consequences for certain economic classes; and certainly there would be wage cuts. Also, as the price of, say, wheat fell, the farmer's income dropped. True, his expenses fell too, but more slowly, and his debts remained unchanged. Thus, he had to work harder to raise more wheat to pay old debts.

Farmers and debtors, and most farmers were also debtors, were quite unhappy over prices, which dropped steadily between 1865 and 1896. The federal government might better have said in 1865: "Because of the war, our dollar will now buy only what 50 cents bought in 1860. This inflation hurt many people, but to restore the dollar to its former value will hurt many more people. We shall simply put half as much gold in our new dollar as in the old one, but then we'll make greenbacks redeemable right away in these smaller gold dollars. That will at least safeguard us against a peacetime inflation." But the government did not do that.

Meanwhile, the American public was finding another kind of money

which it used more and more because it was so convenient. Many people scarcely realized that it was money. That was bank deposits against which they might write checks. By about 1900, Americans were settling some 85 per cent of all business transactions by checks. The banks, however, were expected to redeem their deposits and the checks, as well as their bank notes, in gold coin if asked to do so.

Probably the monies of the world were never in better shape than just before World War I. Many were convenient to use and fairly stable in value. Then World War I damaged every money unit in the world and ruined several. Sooner or later the governments ceased to redeem their paper in gold. In the 1920s, the major nations put their money systems back into working shape again, although many monies were worth only a fraction of what they had been in 1914.

The gold standard lost its former prestige during the Great Depression. England made essentially the same mistake during the 1920s that the U.S. had made after the Civil War. She tried to save the pound by forcing prices lower. The results were painful, and she reversed her policy and abandoned the gold standard in 1931. Other nations followed.

After World War II, the strong desire to return to a gold standard no longer existed, at least not in government circles. They regarded it as a nuisance that would interfere with measures to prevent unemployment or to maintain costly armament programs. Yet, without that discipline, major currencies have depreciated rapidly in the era of peace since 1945. The pattern seems to be too well set to be changed now. For 25 years or longer, paper money has been the only kind that most people have seen.

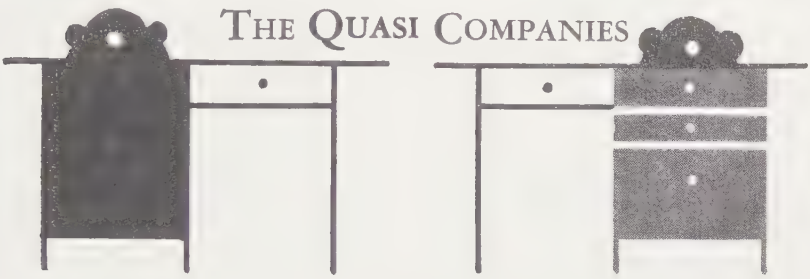
Money has become one of the great abstractions in the operation of the world economy. The tactile reality of our pocket money thus fades into a symbol of that abstraction. We can count our pecuniary blessings only with the help of the headlines and imaginative financial prophecies. ■

Lucrative Semantics

DOLLAR is a word that has passed through various forms. It was *thal, thaler, dahler, daalder, daler* and *talero*. It originally came from Thal, a town in Bohemia. Here coins of an ounce in weight were made. They were called *Joachim's thaler* or *Sehlicken thaler*. So popular did these coins become that they gave their name to those that came after them. Experts believe that their manufacture dates back to the second decade of the 16th century.

New situations create a new type of company that takes its station midway between public and private enterprise

THE QUASI COMPANIES



by Earl J. Weinreb

NEW SITUATIONS are producing organizations that strain old definitions, and lexicographers are hesitating between "quasi-government" and "quasi-private" to describe companies that are all things to increasing numbers of people. In short, the firms in question are joint ventures of government and private business. How did this hybridization come about?

A distinction can be made between the quasi-government and the quasi-private company, but it is primarily one of appearance and degree. The quasi-government firm looks like any public agency, but a closer inspection proves otherwise; the quasi-private venture looks classically capitalistic, and is not.

If you begin with the private sector of the economy, the first steps toward governmental participation seem innocuous. Thus, we are content to consider as private business, the airlines, utility companies and many other industries. But the fact that their relation to the government takes place in terms of special tax exemptions, contracts or subsidies reduces the purity of their private nature. Such firms, however, occupy a separate area in the government-business spectrum, and most students prefer to note the limited public participation and pass on to those firms where there is more governmental content.

A good example of the quasi-government venture is a group of organizations endowed with the formidable title of The Federal Instrumentalities or Agencies. They are the Federal Home Loan Banks, the Federal Land Banks, the Intermediate Credit Banks, the Twelve District Banks for Co-

operatives and the Federal National Mortgage Association. All were created by acts of Congress and began business with capital furnished by the U. S. Treasury. Private investors now hold five billion dollars' worth of their obligations.

The theory was that private investors would eventually replace public capital with their own funds. It has worked out according to plan in the case of the home loan and land banks, where the capital stock is now held in entirety by the member thrift institutions and the national farm loan associations they help finance. In other cases, private funds are steadily taking over the government equity.

To fill a need

These "quasi" companies were all created to fill needs where purely private firms were unable or unwilling to get started. The land banks assist the farmer by supporting the farm loan associations. The home loan banks act as a central reserve credit system for the thrift institutions, thus helping the home owner indirectly. Similarly, the cooperative banks support farmers' cooperatives, and the intermediate credit banks back up credit institutions of rural producer organizations.

The Federal National Mortgage Association, popularly known as Fannie Mae, is a major venture that indirectly helps many home owners throughout the nation. It buys and manages mortgages and thus furnishes a steady stream of credit for the home market. Fannie Mae also carries on another activity, known officially as the Secondary Market Operation. When a mortgage lender like a bank or insurance company needs cash, it can discount the mortgage with Fannie Mae for a fee. The lender, in this case, is obliged to buy a certain amount of common stock in the Secondary Market Operation, at present two per cent of the unpaid balance of the mortgage. In this way the private ownership of Fannie Mae stock is increased. The agency also sells stock on the open market to encourage general participation by private investors.

The Secondary Market Operation, as a classic example of the interlacing of government and private activity, is a profitable business. The U. S. Treasury is receiving dividends on its original investment, and the common stockholders are getting a return of more than four per cent on their investments. Management, as well as ownership, is scheduled to revert to private hands in several years.

Earl J. Weinreb is an analyst with Hayden Stone & Co., a firm of investment bankers.

At the other end of the spectrum are such quasi-private firms as the Rand Corporation. Like the quasi-government agencies, it was called into existence to fill a specific need. In this case, however, the need was not that of the individual requiring credit for a home or a business. The Defense Department had a job to do in meeting some of the more recondite demands of cold war operations. The basic Rand objective was to acquire scientists for government research projects. A private corporation could do this better because it could offer more pay and less red tape than a purely governmental agency operating under administrative regulations.

Semi-independent nature

Most of Rand's work is secret and seen only by top Air Force officers and certain federal administrators. Because of its semi-independent nature, Rand is in a position where it can offer useful criticism of military programs and policies, something an ordinary government agency cannot do. Rand has current contracts worth more than 23 million dollars, including 10 millions in Air Force funds, to assist in the development of research data, and is guaranteed a six per cent profit.

Other government agencies have also felt themselves impelled to encourage the growth of the quasi companies. Thus, the Atomic Energy Commission has entered into many government-industry pacts. All uranium producers must work under exclusive AEC contract, delivering their total production to the Commission, and nuclear power facilities are also being built under AEC contracts.

State and local governments have found the quasi companies useful for a number of purposes. Port and highway authorities have proved effective in managing transportation facilities. About one-third of all housing since World War II has been built under government sponsorship.

The problem of attracting industry to certain regions has also been handed to quasi corporations. New York State and all six New England states have such development corporations, and more than 40 function on the community level in New England alone. All are privately owned, with the local governments restricting themselves to advisory functions.

The quasi companies are not recent. The Federal Reserve System, while it is set up under a congressional act, permits the private member banks to own stock in the district reserve banks. The system thus carries out government monetary policy with private as well as public funds. Moreover, six of the nine directors of each

reserve bank are appointed by the member banks, thus representing the private interest.

Actually, joint ventures are an old and world-wide phenomenon. Columbus got Spanish Crown backing for the voyage that discovered the New World, and many of the explorations and colonizations were accomplished under similar terms. The Dutch West India Company and the Hudson's Bay Company played important roles in the settlement of this hemisphere, and the English East India Company ruled the Indian subcontinent during the 18th century.

Socialistic tinge?

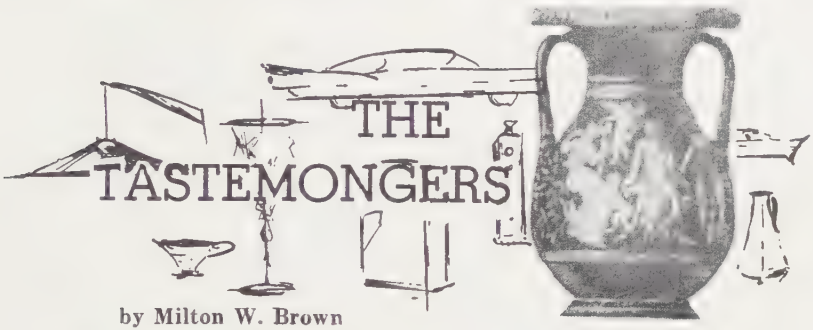
Banks have always lent themselves to joint operation. The Bank of England, founded in 1694, was privately owned until it was nationalized in 1945, but its close identification with government policy put it in the quasi class since its inception. The First Bank of the United States, founded in 1791, and the successor Second Bank of the United States, chartered in 1816, were joint ventures with a more explicit governmental participation than the present Federal Reserve System.

Do the quasi programs have a socialistic tinge? Businessmen, for the most part, would answer strenuously in the affirmative. Others, at least when they look for help with specific problems, take an opposite view. Edward T. McCormick, President of the American Stock Exchange, would surely disclaim he wanted to advance collectivism when he urged the government to invest in small business. He called for a government-sponsored investment trust that would invest in the equity of growing firms who could not find the money on the private capital market. There have been many other such plans [CHALLENGE, January 1958, *Raising Capital for Small Business*].

But the quasi companies do fit into the pattern of increased government participation in the nation's economic life. They get things done better than pure government or pure private organizations in their special fields. The Hoover Commission study of the government showed how involved the federal agencies had become in business. But many suggestions for getting the government out of business point to quasi companies as the solution, at best a difference in degree and not character.

The trend toward big government, with or without epithets, continues thus in the form of joint ventures. Quasi companies, while solving sizable problems, form part of a greater problem that will continue to concern the citizens and theorists of the age of governmental ubiquity. ■

The defenders of good taste must take into account the effects of mass consumption as well as those of mass production



THE TASTEMONGERS

by Milton W. Brown

THERE IS a current cliché that mass production generates bad taste, and like all clichés, it is at least partially true. But it has come to be used without much thought or understanding. Taste is of vital concern to only a small group within our society, whose members might be designated as tastemongers, who are either professionally or intellectually involved with spreading superior esthetic sensibility.

What characterizes the tastemongers is an unquestioning sense of their own infallibility. They actually believe that they know what absolute good taste is, and are further obsessed with the even more naive notion that they could, given the opportunity, reform the rest of us. Or should I say the rest of you, since I am not at all sure to which group I belong?

Any acquaintance with the history of taste should make even the most avid tastemonger a bit wary. We can all remember when *Victorian* was a synonym for *execrable* in matters of taste. Yet, nowadays it is customary to coo over the delicious fantasy of Victorian furniture, or what was once called neoclassic vapidness.

Who can keep up with the successive transfigurations of bad taste? I await with a sense of the inevitable the day when some inspired tastemonger will transform a discarded Hoover vacuum cleaner into a floor lamp.

It is not only that bad taste has proved with time to be good, but that good taste so often turns out to be less than permanent. How outdated are some of the earlier cubical efforts at modern architecture, or some of the products of Bauhaus design! And what has happened to those marks of modernity, glass bricks and driftwood. and what will happen to the

ubiquitous white-painted walls? Taste is at best an elusive thing, but to believe that the so-called bad can be improved through some process of esthetic reform is nothing but a tastemonger's pipe dream.

Mass production involves historically new economic factors growing out of the industrial revolution. In a handicraft society, the craftsman, artisan or artist, produced an object for a consumer. There was a constant and personal interplay of esthetic standards which could be resolved in an object more or less satisfactory to both. The consumer got what he wanted; the craftsman working within tangible limitations produced what finally satisfied him.

Truncated function

The modern, mass-production setup is greatly different. The so-called producer, who is more precisely designated by the old-fashioned term *entrepreneur,* takes over one of the functions of the earlier consumer, that of ordering and paying for production. The craftsman becomes a designer whose function is to create an object that can be mass-produced. The consumer is confined to the truncated function of simple consumption through the process of rejection or acceptance of the finished product. It is this fragmentation of functions along with attendant new objectives and relationship which is at the root of the problem.

Since the entrepreneur is not the consumer, he is from the outset not fundamentally interested in the character of the object itself, but in what will make him a profit. When the goal is profit, standards of quality may be too easily forgotten, especially when the final decisions are not made on the basis of taste or even function, but on a new standard: sales volume. Trendex rating, box-office appeal or consumer acceptance.

It seems clear that in the development of mass production, sales have come to tyrannize production. If two tones will sell a car better than one, then two tones it will be. It will not avail the tastemongers to dream about the chastity of black.

If Westerns outscore quizzes, free cash, drama and crooners, we shall have Zane Grey and not Eugene O'Neill on TV. The fierceness of competition must lead the entrepreneur to scramble for every proven gimmick and finally produce, as in so many motion pictures, nothing but a series of gimmicks.

It might seem an indictment of American culture to point out that all this is but a reflection of

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the pervasive cult of success which has replaced so many values, including the esthetic. The truth is that the entrepreneur really does not care whether the product is in good or bad taste, and the tastemongers, for once recognizing reality, appeal to him with the slogan that good taste makes good business. Unfortunately, the flyers in good taste usually go bankrupt.

Mechanistic trilogy

The designer is actually the only cog in this mechanistic trilogy who is concerned with good taste. The entrepreneur doesn't care, and the public doesn't know. But the designer is at least incidentally concerned with taste, if only to maintain a personal sense of integrity. He must reconcile such disparate elements as materials costs, functions and sales in a single product. The dangerous element is sales, and the sales manager is its spokesman. Engineering advantages may have to bow to upholstery fabric, or safety devices to elongated taillight fins; fountain pens become streamlined, and a tragedy is given a happy ending.

We have esthetic capitulation rather than synthesis. In bartering his talents for creature comforts, the designer cannot turn upon the paymaster-public as the villain. If the public would only accept his version of good taste, the entire problem would disappear, and the designer's soul would be miraculously saved. The public would then accept good taste as the answer to its inexpressible desires. But how, if all it ever seems to accept is bad taste?

The public's most endearing trait is that it is not aware of its bad taste. In spite of well-meaning pressure groups, ranging from the Museum of Modern Art to *House Beautiful,* the public retains either an indifference or a decided aversion to what the higher reaches of tastemongering consider good. People like, with a kind of exasperating naturalness, everything which is popular politically, morally or esthetically. Of course, the fact that they like something makes it popular, and that is the vicious cycle in which the tastemonger is caught.

Veblenian drama

What is usually overlooked is the fact that the public rarely consumes for reasons of taste. The ordinary person is not interested in beauty for its own sake, though on occasion he may be deluded into thinking so. But, he is remarkably sensitive to its social index, which is only another way of saying that he is still acting out his old role in the Veblenian drama of conspicuous consumption. Before he can be whee-

dled away from antimacassars or chrome, they must lose their social symbolism.

Other general cultural attitudes have influence on taste. The most potent is the frightening cult of newness which encompasses attitudes ranging from the worship of originality to a naive predilection for the shiny. In an era of constant and accelerating change, the new is identified with progress, and eventually with the good.

Good art and good taste cannot exist without tradition. Change is essential for the continued life and rejuvenation of art as well as taste, but change for its own sake is merely fashion, and there is nothing as transitory as fashion.

The arts of the past were developed in a continuity of craftsmanship and tradition. An artisan learned slowly and painstakingly the standards of workmanship required in his craft. The consumer learned to accept the standards of taste established by a tradition of craftsmanship. And the fact that tradition in itself carried great social value led the consumer to play an important role in the refinement of its forms. The more leisurely pace of time permitted the historical selection of the good from the bad.

Tradition does carry social prestige, but, unfortunately, almost entirely in the realm of ancestry or antiques. We are driven by a passion for next year's model today. Next year's model may even be last year's but it must not look it. To a great extent the role of the designer has been reduced to *trompe l'oeil,* a deception.

Newness as progress

The producer is concerned with the new because he must compete to sell. The designer on his part accepts, as a matter of principle, newness as progress. He ends up by believing that every time he redesigns a toothpaste tube he is striking a blow for the modern revolution in art as well as refining the esthetic sensibilities of the public and leading it to a better life.

This frenzied competition in newness has produced an endless array of junk whose design is unrelated to any discernible standard. To enter a lighting-fixture store, for instance, is to come in contact with pure esthetic anarchy. One can almost feel the frantic search for something new, something completely and horribly original.

Is mass production doomed to the perpetual creation of an ever-expanding chamber of horrors? I would be quite ready to admit that there have been objects created in mass production that are worthy of consideration along-

side the art of the past. Considering the inherent difficulties, how did they happen, how did they win public acceptance and can they be repeated?

It is not entirely illogical to assume that art can occur even in mass production, for art has been created in the most unlikely places and under the most trying circumstances, whenever man has been able to express some part of himself. If mass-produced objects of esthetic value have appeared, it would indicate that some artist managed to give form to an idea in the very process of struggle against expediency.

Such success requires tolerance on the part of the producer, who is not always a money-grubber. Aside from being good to his mother, and civic-minded, he may possibly even take pride in the quality of his product. But such cases are isolated. For a high-brow market in which volume is more limited, the standard is liable to be higher because the appearance of good taste is often the product's selling point.

The most successful products, in terms of taste, are those in which taste is not even considered. When the primary consideration is utility, in other words, when the boys keep their eyes on the ball, the result is very apt to be not only utilitarian, but esthetically satisfying. Compare the lamp store, where every object was an esthetic creation, to a ship chandler's shop; almost everything here has beauty. I say "almost" because the influence of the power boat, the newest area of invidious consumption, has contaminated the purity of marine design. Everything that has to do with the function of sailing, from a brass screw to a tackle block, is a thing of consummate craftsmanship and esthetic refinement, but the moment one turns to fittings for the saloon, one is left with ashes in the mouth.

The designer may be trying and the producer may be willing, but it is the consumer who is the measure of taste of any epoch. The middle-brow will want what the high-brow assumes to be the natural expression of his innate refinement. The low-brow, the greatest segment of the consuming public, will want what everyone else has, or what he is told via all the avenues of mass communication he should have. That can lead only to bad taste. ■

Not for the Few

"ART IS only great if it can be enjoyed by all. The art of a clique is but a plaything. I do not know why distinctions are made between ancient and modern art. Art is living. . . .It does not matter whether a statue was hewn by an archaic Greek or a modern Frenchman."

—*W. Somerset Maugham*

Big businesses try to increase their sales by promoting themselves as an attractive personality among their customers

THE CORPORATE IMAGE

by Wilbur K. McKee

AN INTERESTING phenomenon in the development of big business is the growth in importance of the comparatively new profession of public relations. Since the close of World War I, it has been more and more taken for granted that sales promotion and advertising campaigns must rely for success upon the public relations counsel. But some disturbing questions have occasionally been heard. One is: "Have not most of our large corporations, in spite of advertising and public relations, become in the public mind rather drab, inanimate duplications of one another?"

What has been done to create in the public consciousness corporate images as institutional *personalities* rather than as mere large-scale producers of desirable goods? This question assumes great importance when asked of those companies which find themselves in a highly competitive market, turning out articles differing only in external designation rather than in intrinsic differences.

What is a corporate image? How is an individual corporate image created? What are the big corporations of America doing to create images of themselves? What is the sales value of an individual corporate image?

United States Steel Corporation distributed in this current year a booklet containing an autobiographical account of Benjamin F. Fairless, who commented:

"The trouble with the old-time management was that it was too individualistic. Modern management, with its professional attitude, its concern for the public welfare and public relations . . . is far better than the old system. Some critics . . . deplore the fact that all businessmen today seem to be modest and polite duplicates of one another instead of the flamboyant characters of the old

days. But you can't have it both ways, and today's man in the gray flannel suit is 10 times more efficient than his colorful and hot-tempered predecessor.

May we, however, pause here for a respectful demurrer and ask if perhaps we cannot after all have the advantages of both kinds. Is there not a definite loss in advertising value and in good will in an emphasis upon efficiency at the cost of individualism?

Every man who likes to buy his suits from the same salesman in the same retail store and every housewife who feels a sense of personal loyalty to her favorite department or specialty store is an example of the importance of personal relationship with an individual business. Call the roll of great department stores and you see the touch of individuality centering about the personality of the *men* who for years, in spite of the fact that the stores were "big" stores, identified themselves with the stores in the public consciousness. John Wanamaker, Marshall Field, Louis Bamberger and the Gimbel family are only a few of the important names on a great roll.

Is there any difference in names? Are there equivalent values in *General,* used in the names of at least three giant corporations, when compared with Ford, Westinghouse, Eastman, Howard Johnson, Chrysler and Du Pont? One thinks reminiscently of Nash, Willys, Durant, Dodge and Stanley.

One of the phrases quoted in Fairless' statement is typical of public relations today—"concern with the public welfare." Is it possible that in this concern for a desirable thing, big business is using the wrong pigment to paint its corporate image?

Very real differences exist in corporate images. But are these differences accidental by-products of advertising and sales promotion, or are they in reality self-created? In a competitive market, is it important that a corporation become known as an interesting personality rather than as a mere producer of durable and trustworthy goods?

Instances of conscious effort to personalize a corporation are too few or too often weakened by confusion. A current and popular use of the term *corporate image* may just possibly be inadequate. The idea of Union Carbide as a helping hand to industry and General Electric selling progress as its most important product is good as far as it goes. But does it go far enough? Are these corporations really becoming per-

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sonalized in the public mind? Or are they perhaps merely substituting a rather general and even trite concept for an actual product?

It is interesting to note that Charles E. Wilson as Secretary of Defense became more of a real person than he had been while president of General Motors. Could it be that he communicated his own personality better on his own than through GM's public relations department?

There are, however, some examples now and then of a great corporation acquiring an element of a human personality. Standard Oil of New Jersey (Esso) for many years held its annual stockholders meeting in the traditional manner. The chief impact of the company upon public consciousness was through conventional reports, advertising and the contacts through service stations.

Intensified human contacts

Then the meeting was moved to the great Bayway Refinery at Linden, N. J. Here, executives, board members, stockholders and employees saw each other all at one time—as people. A picnic lunch right at the plant helped to intensify human contacts. Employees saw for the first time whom they were really working for; they looked at and talked to stockholders; stockholders looked at and talked to employees and executives.

Back in the golden days of radio it was not unusual for heads of corporations to appear in person as a regular feature of the entertainment they were sponsoring. Sometimes they were charged with indulging their personal vanity. But one of these men, Martin L. Davey, of the Davey Tree Company, became so much of a personality that the people of Ohio elected him as their Governor. His company, too, became a company with a clever corporate image—and increased its sales.

When a great hotel was completed in New York City just at the beginning of the Great Depression, it did not fold as some people expected. Instead, the man who pulled it through an almost impossible situation, Ralph Hitz, became a personality along with his hotels. Does the fact that Conrad N. Hilton is a real person have any bearing on the choice of a bed for the night?

When Ring Lardner's stories were popular, the image of the baseball player in the public consciousness became Alibi Ike—illiterate and stupid. Today, old ladies are enthusiastic baseball fans. Among the reasons for this change in the "ballplayer image" is an energetic public relations program.

Has advertising done enough

in creating a corporate image? Even a building may have a distinctive personality. *The New York Times* of October 20, 1957 carried an entire advertising section about the new Tishman Building in New York City. Included was an article on how the builders attempted to attain a distinctive image. The cartoons on the excavation fence, drawn by a talented steelworker, and 250 flower boxes filled with seasonal flowers created a friendly building.

The work of Leslie Pearl for Wallachs' stores in New York City is an outstanding example of the way in which advertising may contribute to the growth of a business. There are many men who turn to Pearl's triweekly advertisements as they turn to their favorite columnist, and they always find an image of Wallachs' as a personalized store.

Abstract thinking

Somewhere in the textbook literature of public relations is this sentence: "Public information given out acts merely as an intensification of preconceived ideas." Yet, many public relations men continue to think in terms of information. They know that "what people think and say about a company is important," to quote a public relations manager. But they often continue to encourage people to think and speak in terms of abstractions. Advertising slogans can usually at best only substitute one abstraction for another. "Progress is our most important product" is a good slogan, but it still deals with an abstraction and with the concept of a product. Where is the personalized image to replace the very real personality of the big businessman who even though sometimes a robber baron, was nonetheless interesting, real and human?

Human beings take naturally to self-identification with others or with groups—and a corporation is a group. People are Democrats, Republicans, Socialists, Presbyterians and Catholics. They are alumni rooters or "subway alumni." What are they in business? Are they sometimes also Fordites, Altmanites, Westinghouseites, GMites, RCAites?

The corporation that can create a corporate image beyond the terms of new generalizations is going to reap dividends from its customers who have accepted a self-identification with a living entity. Are we really doing such a job? ■

A Walk Across the Freezer

IF ALL the steel used in one year by Frigidaire plants in Dayton, Ohio, to make the outer shell of refrigerators was laid end to end, it would form a two-foot sidewalk from Dayton to San Francisco.

Are Labor Unions Monopolies?

A prominent economist says, "Yes, but—"

by Charles E. Lindblom

WHAT CAUSES the cost of living to rise? One story is that prices are pushed up under intermittent but ineluctable union pressure on wages. The possibility that this is indeed a true story adds fuel to old fires. Is unionism a form of monopoly? What are the implications for public policy of union power over wage rates?

Whether the union is or is not a monopoly depends entirely upon how you define the term. What counts is what unions do, not how they are classified. In what respects are unions like or unlike the business enterprise that might seek to exercise monopoly power?

The most obvious similarity is that they both hold some significant discretionary power over price and, beyond that, over quality of product and terms of sale. The monopolistic enterprise, to a degree, controls the price of its products; the union, the price of its labor.

However, a great difference is hidden under this obvious similarity. How does an enterprise come to control price? We look upon its control over price as an aberration, an unfortunate but frequent concommitant of its pursuit of profits. But why does the union control the price of labor? Because, most of us would say, that is its function, its purpose. In an important sense, therefore, the union is to be seen as an institution for doing in the labor markets what we forbid business enterprise to do in product markets.

Consider some further similarities. Both the union and the enterprise sometimes indulge in physical restriction of output: in the one case by work rules; in the other case by suppressing technological innovation or, more rarely,

simply by withholding a product. In addition, both sometimes indulge in elaborate arrangements to rig markets at the expense of the consumer, and it is safe to say that both do so because their arrangements are often enough with each other. At the one extreme, this kind of collaboration between union and enterprise shades off into mutually profitable racketeering. At the other extreme, it takes the form of tacit agreement between union and enterprise to accommodate wage increases through price increases for the mutual benefit of the two parties at the expense of the consumer.

But is it not true that enterprise monopoly is typically exploitative and inegalitarian, while the union is typically defensive and egalitarian? If so, this is a significant difference which tells us whether it makes sense to permit unions in labor markets to do what we forbid enterprises to do in other markets.

Most of us believe that the union *does* play an important defensive role for individual workers. It has won for workers the power to insist that certain minimum rights, privileges and shares in the common product be conceded them. We do not typically make these claims for enterprise monopoly.

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Of course, these claims needed less qualification in the early stages of unionism than they do now, when the well-established union can become less preoccupied with insuring a fair distribution of rights, privileges and income shares than with aggressively seizing what it can for its members.

But, granting this, we can still believe that the distinction between the defensive egalitarianism of unionism and the exploitative inegalitarianism of business monopoly is valid enough to justify our permitting unions to do in labor markets what we forbid enterprises to do in other markets.

The method of controlling prices consists in supply restrictions by both enterprise monopoly and unions, in the one case by patents and other restrictions on the entry of competing firms, by product differentiation and agreement among ostensible competitors. The union, on the other hand, can impose restrictions on the training and licensing of new workers. It can arrange a combination of closed shop and closed union which leaves the price of labor to find the level dictated by demand in conjunction with limited supply.

The important difference in method stems from the fact, often imperfectly perceived, that unions do not *typically* proceed in the manner just described. Instead,

the union induces the purchaser of labor to agree that he will buy labor at no less than the negotiated price *even if labor is offered to him at less.* In short, the union does not restrict supply so that buyers of labor will bid up its price, but rather induces the buyer of labor to disregard the available supply.

Threat of a strike

What is the inducement? Peace instead of war. If the employer does not agree, he faces the threat of a strike. The strike is by no means a simple refusal to work, but a device to impose losses on the employer that will induce him to agree to hire labor at a specified rate, *regardless* of what offers individuals currently or subsequently make to him.

Thus the strike is necessarily a coercive tactic. Long periods of industrial peace are not evidence to the contrary, for the threat of strike, whether spoken or not, is always there. Of course, as the bargainers come to think of themselves as bargaining according to certain traditions and accepted mutual expectations, the coercive element diminishes. Even so, the foundation of union power is the coercive power of the strike threat and this is unlike any method of enterprise monopoly.

These similarities and differences between enterprise monopoly and unionism reflect two great contradictions in policy that account for continued confusion in union legislation. The first is this: on the one hand, public policy declares that combinations to raise prices are illegal; on the other hand, it declares that combinations to raise the price of labor are to be encouraged. The second is this: on the one hand, collective bargaining is to be encouraged as a means of peaceful settlement of disputes; on the other hand, many of the coercive tactics on which it rests are illegal. The first contradiction explains why we have not and probably cannot hold unions responsible under the antitrust laws; the second explains why we cannot always enforce legal prohibitions on coercive picketing and other violence in industrial disputes.

Shall we resolve these contradictions simply by removing the sanction that public policy gives to collective bargaining? Few find this an attractive solution. If we do not settle industrial disputes by collective bargaining, we are most likely to turn to government for their solution. If we do not permit workers to protect their rights, we shall most probably protect them through government regulation—perhaps in the form of compulsory arbitration. This is a less popular alternative than the one it might supplant.

To be sure, government regula-

tion is not the only alternative to collective bargaining. We might suppress unions and then attempt to create rigorously competitive conditions in labor markets, counting on the vigor of competition among employers for workers to inhibit the former's exploitation of the latter. While not to be rejected out of hand, this proposal is nevertheless labeled as both impracticable and barbarous and is discredited as a political program for the United States.

We therefore have to find a way to reconcile collective bargaining with the kind of wage rates and price level we want, as well as with our traditional prohibitions on coercion.

Kinds of coercion

But, if we do not shrink from the facts, the dilemmas will prove to be exceedingly embarrassing. We shall probably have to accept some coercion and we many find it difficult to distinguish between tolerable and intolerable kinds of coercion. We shall also have to continue to accept combinations to raise wages. Again, it remains to be seen whether we can distinguish between tolerable and intolerable degrees of control.

Take the problem of coercion. The logic of the dilemma suggests something like the following: where workers wish to strike, a majority vote shuts down the firm until the union and management come to terms. A drastic proposal? Perhaps so, but see how it meets the problem. By shutting the plant down by law, the employer is put under inducement to come to agreement with the union, and the coercions of the picket line are avoided. We have escaped the dilemma, for we have forbidden the most odious kind of coercion without threatening the viability of collective bargaining.

Such a program would strengthen unionism at the bargaining table, a result not universally acceptable. Fair enough! The point of the proposal is to show at what price we can remove the contradiction from public policy. If in anyone's eyes the price is too high, let him consider what he wants: collective bargaining plus its usual coercions, or neither.

How can we deal with the other dilemma and keep union control over wages within reasonable limits, once we concede the inapplicability of antitrust?

A first possibility is simply to count on present restraints to do the job. These are employer resistance, the threat of job losses through strikes, and the threat that inflation will take back from union membership everything that high wages win. Unfortunately we cannot be sure that this will be enough. Employers sometimes acquiesce rather than resist; the

threat of unemployment is *visited less on union members than on potential members,* and inflation robs unions of only some of the fruits of wage increases.

If we want to build into our economy reasonable assurance that combinations to raise wages will not get out of hand, we can either seek to reduce the power of unions over wages, or we can seek to increase the responsibility with which the power is exercised. It is unlikely that we can do both.

To reduce power over wages, public policy might strike at the tendency of collective bargaining to achieve wage changes for an industry as a whole. But how can we do this? Can the law prohibit one local union from agreeing to the same wage increase as won by another local? Can officers of a union be prohibited from developing common standards and aspirations? Can an employer be forbidden to agree to the same wage rates paid by his competitor? To prohibit industry-wide wage movements is impossible without, at the same time, prohibiting *any* union control over wage rates.

Explicit collusion between employer and union with the object of rigging a market can be held illegal. But beyond this, the only successful way to limit union power without entirely removing it may be a general harassment of unions to reduce their size, cohesion and mobility. And this alternative is the kind that may easily backfire, for harassment may stimulate cohesion and aggressiveness rather than reduce it.

Inflationary consequences

How about the second alternative of conceding great power to the unions but encouraging them to use it responsibly? The strategy here is to put enough power in union hands so that union policy dare not ignore its own repercussions. The AFL-CIO must face the inflationary consequences, if they arise, of a centrally negotiated wage movement embracing most of the entire economy. The scope of union power must thus be great enough so that repercussions matter to union policy-makers, and union policy-making must be sufficiently centralized so that the responsibility to assess repercussions and act accordingly is unmistakably located. The next step would be to create a special channel of political responsibility through politics.

For many decades, the practice of unionism in the U.S. was to seek favors from both of the major political parties and reward with its votes the most generous party. At the other extreme, is the political situation in which trade union leadership is active within one party and plays a leading role in finding coalitions of interests

that can be knit together with union interests to win elections. Union leadership cannot escape asking how it can reconcile union aspirations with the interests of the other groups.

This is not to suggest a new labor party for the U.S. But it does suggest that we should encourage, rather than resist, the slow growth of union responsibility for the fortunes of a particular political party. This possible solution to our policy dilemmas promises, however, at best no more than a very long-run solution. And, even as a long-run solution, it is open to the objection that deep union involvement in one political party might exacerbate social conflict at the political level.

The most important point to be made about problems of collective bargaining is that no solution is presently known, and none can emerge until we face and remove the contradictions in present policy that reflect our own contradictory attitudes toward the institution of collective bargaining and what it entails.

From time to time in history, great new institutions arise to challenge accepted ways of thinking and doing. They are like powerful new players entering a game, yet refusing to play by the accepted rules. Their impact is such that, in the long run, the rules are changed, and, looking back, we find we like the new game better, even if we thought it unsporting that they would not play by the old rules.

The corporation was once a disturbing institutional innovation, though most of us have forgotten how disruptive it was to the established order in its early years. Now that the great labor unions of the post-World War II era have replaced the corporations as our leading subversive institution, it is not surprising that we find ourselves as perplexed by problems of their regulation as we once were by newly emerging problems of control over the corporation. ■

Answers to Challenge Quiz

(See page 79)

(1) False *(see page 8)*
(2) True *(see page 74)*
(3) True *(see page 62)*
(4) False *(see page 50)*
(5) True *(see page 57)*
(6) False *(see page 38)*
(7) False *(see page 13)*
(8) False *(see page 26)*
(9) False *(see page 22)*
(10) True *(see page 67)*
(11) True *(see page 17)*
(12) True *(see page 42)*

A specialist in obsolete securities proves that there is life in stocks that have been given up for dead

by Leonard Baker

NOT ALL the firms on Wall Street are concerned with the big money. From a dim office reminiscent of Dickens' day, B. S. Lichtenstein and his one assistant engage in the buying and selling of obsolete securities or, in Lichtenstein's words, the "junk."

He is, however, a successful dealer, and he is very proud of his "junk." Many stock issues float about on the fringe of the great money market with values best expressed in vague potentialities. Obsolete securities have little or no market value, but they conserve possibilities as long as the companies have kept their charters. Some future development may give the stock real salability.

Lichtenstein bases his purchase judgments on 30 years of experience on Wall Street, 25 of them in the "junk trade." He makes thorough investigations of court records, corporation charters and other sources of specialized information.

"I went into the trade during the deepest part of the depression, when all of Wall Street was on the verge of becoming one big junk yard," he says.

Lichtenstein is willing to keep a security more than 10 years, waiting for it to come to life. He expects that 10 to 15 per cent of his purchases will eventually be salable. He will purchase stock of a corporation that is unable to find a market for its offerings, if it is still in operation and has some capital on hand.

Tax laws have encouraged Lichtenstein's business by giving sellers of stock reason to be cheerful about losses. They can rid themselves of dormant issues and then claim deductions on their tax returns. Thus, a man will sell Lichtenstein 25 shares of a stock for one dollar after having originally bought them at 20 dollars a share. He can claim a tax loss of 499 dollars.

But others can get substantial returns on the obsolete securities

themselves. "If people would only look a little more carefully on their next trip to the attic, they might find pieces of paper that prove that grandma had more business foresight than she was given credit for," Lichtenstein says. "I've found old railroad issues dating back almost 90 years that could still be turned into cash today. Many of today's railroad companies are combinations of smaller railroads, and securities belonging to one of these merged outfits can still be traded for the present company's stock."

Commercial tragedies

Mining companies, Lichtenstein notes, seem to have a higher rate of mortality than most other businesses. But, he says, business continues to be a gamble, and the stock debris he has seen is evidence of commercial tragedies that are often more interesting than success stories. The mining firms frequently have substantial assets, but if they lose their charters because of failure to pay the annual franchise tax, their stock becomes worthless even for Lichtenstein.

The flicker of life that he sees in an obsolete security can sometimes become thoroughly emphatic. Thus, Lichtenstein bought stock in a Canadian streetcar company that was still operating, but in a way so discouraging that the stock shares were priced at five cents. Later a minority stockholder tried to get a controlling interest, and the five-cent shares went to almost seven dollars. The profit percentage was enormous, but Lichtenstein held only 20 shares.

Besides careful research, his work requires a thorough knowledge of Wall Street and an instinct for bargains. Lichtenstein concedes that the quest of the unusual stock has brought unorthodox men into the business. He regrets the passing of a colorful character named "No-Telephone" Smythe, who had an unexplained prejudice against telephones. Smythe refused to have a telephone in his office despite the handicap that its absence meant to his operations. Another competitor committed suicide, but Lichtenstein hastens to say that the reason had nothing to do with the rigors of the securities business.

Obsolete securities form one market that is little influenced by the Stock Exchange index. As long as uncertainty rules the market place, there will be blue chips and lead counters on Wall Street. Prosperity encourages ventures that are too hopeful even for a hopeful time, and recessions can spread mortality among basically sound firms. There is always enough business for the stock undertaker. ■

Economics in Action

mild and warmer

The American economy accomplished a feat in early 1958 that will give more pleasure to students of economic peculiarities than to many who were affected by it. Business activity was down, but prices were rising. The situation could occur only if the changes were minor within a context of firm balance. The slackening in business was so mild that prices refused to drop, a further indication of continuing inflationary pressures. The price increase, on the other hand, was a lagging symbol of the boom that was past, in the face of such recession tendencies as reductions in capital investment and inventories. If the newly unemployed and bankrupt lacked a proper objectivity to appreciate the latest developments, they could reasonably find hope in a situation that opens to the government a wide range of action possibilities.

short change

The biggest business news was the budget. Indeed, the effects of budget policies were important in causing the decline. In the fiscal year beginning in July 1957, the government was taking money out of the economy at a rate that was an annual one billion dollars higher than its spending rate. The deflationary effect will continue until the more magnanimous 74-billion-dollar budget for fiscal 1959, beginning in July of this year, reverses the trend. Emergency spending could change the proportions, but it will be working counter to a situation that has a downward bias.

long view

Business caution was stronger in the short term rather than in the long range. Thus, inventories showed earlier and more pronounced antiboom tendencies than capital investment. The inventory increase in 1957 was only one billion dollars compared with the four billions

of 1955 and the five billions of 1956. The capital investment peak, however, was not reached until the third quarter of last year when business was spending at an annual rate of 37.7 billion dollars. The last quarter saw a slight decline to 37.5 billions. Capital expenditures for the first three months of this year are expected to be at a 35.5 rate, not at all a discouraging drop. It is true that such a key economic element could cause greater declines in other sectors, but enough antirecession possibilities remain in the wide area of business developments.

big buyer

The consumer was a staunch prop to the economy. He was showing some slight hesitations in his buying, in response to a situation in which aggregate earnings were dropping a little despite continuing rises in hourly earnings. But the essential stability of the consumer's spending reflected the firmness of his financial base. In 1957 the financial and physical assets of individuals totaled 125 per cent of current income, the same proportion as in 1950. Thus, the consumer supported the greatest boom in American buying history while maintaining a sound personal economy. The assets-income ratio had been considerably lower—about 110 per cent—before the war.

major credits

Outstanding consumer credit is a towering figure at about 34 billion dollars, but the consumer has been controlling it firmly. Through 1957 he was repaying it at a rate of 3.4 billion dollars a month while contracting new debts at a 3.6-billion rate. Meanwhile, the consumer was putting 20 billion dollars in his savings account both in 1956 and 1957.

down car

The strongest downward indications came from freight carloadings, steel, machines and automobiles. But these classic indicators lost some of their old power in face of the greater strength of other elements. The government had yet to define its role. The commercial banks reduced their loans by 719 million dollars in the

second half of last year, compared to an increase of 2.5 billions in the same period of 1956. This was a clear response to tight credit policies and the strained profit possibilities of the superboom conditions. Credit is now getting easier and many postponed expenditures will become present ones.

mixmaster

The economy is easily maneuverable. Electronics, oil and utilities are still on an ascending curve. Housing, encouraged by new FHA regulations, is promising to have a good year. The Gaither and Rockefeller reports show the upward direction that government spending will take. More than ever, the government is the dominant force in the economy, and it can change the mixture of things into one not quite as before.

* * *

beyond the budget

WASHINGTON—The President's 73.9-billion-dollar budget has a good chance of becoming a 75-billion-dollar one before Congress gets through with it in June. The consensus is that the nation's security comes before considerations of economy. If anything, Congress is in the mood to "force" the Pentagon to accept and spend perhaps 500 millions more than the President has requested. Then will follow the special pleas by interested Congressmen and Senators to restore some of the cuts in various federal services. The debt ceiling will certainly be raised by 5 billions—and it will stay up. A tax increase will come in 1959.

changes in the military

Not the least of such Congressional action will be the effect upon military reorganization. Major emphasis is on missiles, space vehicles, research, etc., and more and more the traditional place of the foot soldier is being taken over by the "air minded." Congressional willingness to pull out all stops in the race to win pre-eminence in outer space has sealed the fate of the Army. More than any study of possible reorganization of the Pentagon, Congressional appropriations will change the face of our military establishment.

economic prospect

The pace of the economy is of considerable concern, not because there is general pessimism about the future, but because a sharp drop in tax revenues will quash the Administration's hope to keep the budget within shooting distance of a balance. There is confidence that in spite of the current downturn in business and production activity, by the third quarter of 1958 we shall be producing a national product at an annual rate of 441 billion dollars, topping the best quarter rate of 1957. But with unemployment expected to reach 3.5 million by the end of February, and an additional million in prospect before July; with the expected dip in corporate tax yields; with acrimonious labor-management disputes in the offing; and with a high rate of government expenditure contributing to inflationary pressures, everyone stands to get hurt before the nation learns to live with its new spirit of emergency.

another fight to a draw

The Administration will stand firm for renewal of reciprocal trade agreements and for its foreign assistance programs. Both are now considered to be out of the economic realm and part and parcel of national defense strategy. The Russian entry into the field of foreign assistance is formidable, and although the Kremlin is long on promises, we must step up our own activities. The underdeveloped areas constitute still another area where we must do everything possible to fight the Russians, at least to a draw.

ways to the summit

Pressure from our allies for a summit meeting has become more polite, but it remains insistent. The President's letter to Bulganin indicated clearly that there would, indeed, be such a meeting. But it cannot be soon. The insistence on our part upon preliminary preparation at lower levels reflects Secretary Dulles' belief that the Russians must first prove their sincerity. If within the next six months we can show the world the prowess of our rocketry, then the summit meeting will come in September. ■

Mexico serves as a testing ground for United States relations with the other underdeveloped nations throughout the world

Mexico: Progress and Disproportion

by Frank Tannenbaum

A MEASURE of the good relations existing between Mexico and the United States is the rarity of headlines about our southern neighbor. It was not always so. Mexico was a continuous source of public excitement, violence and political preoccupation from the Taft to the early Franklin D. Roosevelt administration. The problems have changed shape and pitch, but they still have force in world policy.

The two nations must deal with each other over a gulf of disparity that often swallows up good intentions. The Mexican per capita income is 250 dollars annually, one-eighth of the American. It is inevitable that frictions should result from this as well as from differences in political and social institutions. Our relations with Mexico are a good test of our capacity to deal with the other underdeveloped nations of the world. Poverty and nationalism in such countries are among the most pressing of the world's problems. How well have we done in the case of Mexico?

American proximity has a double effect on Mexico. It has meant our outright despoilment of vast Mexican territories during the 19th century and American military expeditions in the 20th century. It causes envy and frequently justified resentment among the Mexicans, and overbearing attitudes and occasionally justified complaints among too trusting Americans. But the closeness also has a vivifying economic reaction in Mexico, while American businessmen can take comfort from good sales southward.

The visitor is struck by evidence of industrial expansion. Houses, factories, electrical plants, roads and dams are erupting everywhere. The cities are growing;

Monterrey has doubled its population in 10 years; Mexico City, Puebla and Guadalajara have a steady increase of five per cent annually. The cities are responding to such developments as the tripling of steel and the quadrupling of cement production since 1939, and the construction of new plants for sulphates, benzol, caustic soda, plastics, fibers and fertilizers.

Foreign investors are welcome, and American companies have been helpful with patents, technicians and money. Direct investments from the United States total about one-half billion dollars, with an estimated return of an attractive 10 per cent. Automobile construction, with the help of the Italian Fiat firm, is under way, and the Mexican production of freight cars is a successful enterprise already.

But the notable aspect of the Mexican growth is the fact that it is primarily home-financed. Only an estimated 15 per cent of the investments comes from foreigners. Government funds were the major financial resources behind the increases in steel, electric power, paper and pulp. The Mexican administration has also encouraged local private capital.

Mexican industrialists have responded by getting rich quick. A middle class, needed to furnish the personnel for a modern political economy, is increasing in size. Old disproportions have new ones superimposed upon them; one Mexican economist claims that one per cent of the population absorbs 66 per cent of the national income. The figures are doubtful, but the great inequalities need no exaggeration to be striking. Prices have quadrupled in the past few years and wage increases have not kept pace.

But the poor remain confident and unresentful. They buy increasing numbers of radios, television sets and broken-down cars with their overstrained pesos, and hope for newer gadgets tomorrow.

Mexico is undergoing a demographic explosion, and the poor multiply faster than cement plants. A population increase of three per cent a year promises a doubling of the country's inhabitants from the present 30 million by 1980. Certain aspects are almost unbearable today. Thus, half the children are not going to school; the country simply fails to build enough schoolhouses to keep up with the birth rate.

Why does Mexico accept such a grossness of inequality? Its citizens need only recall recent history to see how much they have achieved. The rural population remembers not only that it was

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poorer, but that is was not free. At least the Mexican land folk is no longer an oppressed mass of semislaves, bound to a plantation economy by laws and perpetual indebtedness. Half of the tillable land is in the hands of the peasants, and a large part of the rest is in small holdings. The former peons have achieved an identity with the rest of the nation.

The gain, however, has not been matched by economic returns. The most important improvement has been the increase of the area under irrigation by 7.5 million acres. This has greatly enlarged the production of commercial crops like cotton, sugar, citrus fruits and melons, and it has made cotton export a major item. Agricultural credit, better seeds and more fertilizers have also increased yields in corn, rice and wheat. But agriculture in central Mexico, where the mass of the people live, is at best a risky adventure.

Sensitive to change

In an average year, hail, frost, torrential rains and drought will ruin 15 per cent of the crops. A bad crop means that there will not be enough of the staple corn to feed the people; last year Mexico had to buy 900,000 tons of corn from the U. S. Many of the increases in agricultural production are in export crops, acutely sensitive to changes in world market prices.

If the economy thus presents major problems, the Mexican people and their government had earlier given priority to certain political objectives. The establishment of a new dignity for the peons came with the restatement of Mexico's control over her own affairs. Internal violences had provoked American military intervention in 1916 and the Mexican government set about creating a situation where there no longer would be excuse or reason for such measures.

The expropriation of the American oil companies in 1938 was regarded by the Mexican people as a declaration of independence. The years between 1910 and 1940 were a bitter period in relations with the U. S. If the details of this struggle were frequently distasteful to American policy, men like President Woodrow Wilson and Ambassadors Dwight Morrow and Josephus Daniels saw the possibility of friendship beyond the immediate challenge to American interests.

The Mexican leaders—Carranza, Obregon, Calles and Cardenas—were willing to risk any hazard, even war and annihilation, to reestablish Mexico's right to establish order in its own house. They were remembering that Mexico had lost half of its territory, from

northern California to eastern Texas, to the U.S. They felt that they could permit no further humiliation.

Thus burdened with total responsibility, the Mexican government has had to face its great economic problems. It is struggling mightily where success in improving well-being produces the by-product of bigger problems. Thus the population rise, a response to better conditions, is placing always greater demands on a mediocre cropland and a still young industrial structure.

The United States does furnish important help by importing Mexican labor and exporting American tourists—a half million of each annually. The laborers, the officially admitted *braceros* and the illegal *wetbacks,* are sending back home a needed stream of funds while relieving unemployment in afflicted areas. The tourists are also a valuable source of international exchange. Indeed, economists see the expansion of both tourist trade and labor entry as the most important means of preventing Mexico's problems from getting too big to handle. Furthermore, the drying up of European immigration to the U.S. promises that this country will continue to have a shortage in unskilled labor. The Mexican problem becomes an American advantage—and a Mexican opportunity.

Other American policies have not been so helpful. When we dump our agricultural surpluses on the world market, we are taking away customers from Mexico. American export cotton sales at low prices were a blow to the Mexican cotton industry. The refusal of American businessmen to invest in Mexican oil construction, however understandable, aided neither Mexico nor the American investors. Mexico sells three-quarters of her exports to us, and a certain economic dependence must subsist in such a situation.

Mexico straddles hope and poverty. It plans to irrigate 22 million more dry acres in the next few years, emboldened by past success and undaunted by the fact that these successes have been qualified by the tendency of old irrigation dams to silt up. It plans to expand its chemical industry, although the power needs will strain its limited hydroelectric resources. American policy remains obligated to help its neighbor in a world where proximity breeds problems which sometimes match the progress. ■

Did You Know?

THE TWO-PARTY SYSTEM is something of a rarity around the world. It is firmly entrenched only in the U.S., Great Britain, Canada, Australia, New Zealand and some parts of Latin America.

Guy Suits

Vice President and Director of Research, General Electric Company

Research and Economic Results

Q *Dr. Suits, just what is research and development?*

A Research and development is a category of technical activities which includes basic research, pure research, exploratory research, engineering development, advanced development and advanced engineering. It is the beginning of the process that leads from a scientific frontier to a product or a service that satisfies a human need.

Q *What is its magnitude in terms of expenditures?*

A Presently, we spend seven billion dollars per year for research and development in the United States, divided equally between industry and government expenditures. Thus, it has become a major industrial activity.

Q *Could you, Dr. Suits, tell us some things about the differences among various industries in their use of research?*

A You can distinguish at least two groups by their approach to research. The first group would include the electrical, chemical, pharmaceutical, communication, electronics and many of the defense industries. This group is very active in research and development and spends three to seven per cent of gross sales on such work. The other group places much less reliance on research and development as an industrial function. It includes basic metals, textiles and the automotive industry. These industries spend one per cent, or even much less, in relation to gross sales for research and development.

Q *How do industries apportion their expenditures between research and development?*

A Statistical information on this is much less certain. In the last survey of research and development by the National Science Foundation, only a partial attempt was made to differentiate between the two. Moreover, research was treated as a single category, although *basic research* is an important subdivision of this work. There can be no doubt, in any case, that the expenditures for *research* of all kinds are actually very much less than the expenditures for *development*. For example, in the aircraft and defense industries, the development category includes the extremely expensive military equipment prototype work; and in the chemical industry, it may include the expensive pilot plant stage of process development.

Q *Do you think that the United States is giving enough money and thought, for example, to industrial research?*

A In industry, we haven't presently attained an appropriate balance between research and development, on the one hand, and the other, older industrial functions of engineering, manufacturing and marketing. The proof that this is the case is this simple statistical fact: over the last five-year period, research and development has been growing at the rate of 13.5 per cent per year, while industry as a whole, based on physical output, has been growing at the rate of perhaps three to four per cent per year. This means a hasty effort to catch up. What we really seek is a balance. Research and development, as one of the newest industrial functions, is just getting to the point where we can objectively determine where the balance is.

The American attitude of demanding immeasurable results

Q *Do you think, Dr. Suits, that the American attitude of demanding measurable results has had an effect on this old balance or imbalance?*

A Undoubtedly it has. But you can't quarrel with the businessman who wants to measure the results of his expenditures in terms of profits, or better yet, in terms of return on the research investment. Let me illustrate the dilemma, and consider as an analogy, the geological explorations for oil. The geophysical scientists are faced with this

situation: they cannot predict exactly where and when their discoveries will be made; that is, they cannot prove for certain that their efforts will be profitable. On the other hand, there is the equally persuasive fact that unless exploratory work had been pursued in the past, there would have been no oil industry. Now, I think that in modern industry we are at this point: we are recognizing more and more that the scientific frontier, like the geological and the geographical frontiers, is an important and profitable source of future business growth, and in time we will bring it into better focus as a normal business activity.

Q *What has been the attitude of General Electric toward research?*

A Our company has had a very long history in this important function —including basic research activity. Our central laboratory was established in 1900. We now also have a very large number of decentralized laboratories associated with our decentralized businesses. We depend upon research and development as a primary source of our future growth. We feel that it is vital to recognize the basic character of the activity as we develop improved management concepts and practices. We know that the practitioners in this exotic trade are in a speculative and a creative activity, and that challenge, stimulation and reward are important attributes of a productive research environment.

Require routine reports from research scientists

Q *How do you manage this creative activity?*

A We have developed many management practices which we think contribute importantly to this environment for research work. It is common in many industrial laboratories to require routine reports from research scientists. Our practice, on the contrary, is to require reports only when there is new knowledge to report. The result is that we have fewer reports and that the reports actually issued are worth studying and enjoy wide readership. The management practice in this case, we feel, is appropriate to the character of the activity. We can't schedule invention and discovery, so we don't schedule reports.

Q *How does a scientist get the funds and administrative backing for a given project when there is no practical application visible?*

A Each of our research departments has a research category called

preproject work to cover early exploratory work. The individual scientist undertakes such exploratory work with minimum of authorization up to an effort expenditure corresponding to one or two man-months. This results in a great many small-scale exploratory projects. At least 90 per cent of them fail during this early exploratory period because Mother Nature hasn't stacked the cards favorably, but from the ones which develop real promise, we obtain many of our continuing large-scale research projects. For these continuing projects, we employ a more formal review and authorization procedure.

Each company and industry must find an appropriate level

Q *How do you measure results in terms of costs and eventual profits?*

A Let me consider first a simple example—our diamond project. I say "simple," in this case, because we have all of the information which permits us to construct the complete financial history—from the first experiment to the market place. We can, therefore, relate the costs of the work in all of its phases to the projected new business. Now, let me mention a more difficult research result to measure. Many years ago, we produced a new polymer, or plastic, called *Formvar,* that became a new wire insulating material of wide usefulness in many products, especially in motors and transformers. More importantly, however, *Formvar* permitted us to revolutionize certain manufacturing processes in our plants making these products, and thus improve our competitive position. The complexity of the beneficial results in this case means a formidable problem in cost and profit evaluation, and in such cases, we haven't yet arrived at a precise measurement technique.

Q *Then, research and development has outrun the capacity of statistical techniques for evaluating it?*

A That is true in some cases, and explains, perhaps, the lag in the use of basic research. We in General Electric realize that we depend upon research and development as a primary source of expansion in our industry. But, as I indicated, other industries are not so dependent on it. Each company and industry must find an *appropriate* level for such work.

Q *The quality of research depends on the people in research. How would you describe the quality of candidates for research positions?*

A We are very happy with the product of the American educational system as we receive it in the form of the trained research scientist. I think that graduate scientific training in this country is excelled nowhere in the world. The real concern is this: we have some outstanding young people going to our public school systems who undoubtedly have great aptitudes in science and technology but who may never realize it. We have no method at present for exploring such aptitudes. It is a pure accident if an individual finds out whether he has abilities in technical fields. We have not yet accomplished the exploration of aptitudes to make sure that we're not overlooking young Einsteins and Langmuirs in our public schools.

Q *When we do discover the aptitudes, are we giving them all the necessary training?*

A It's an unfortunate fact that scientific and technical subjects, including mathematics, have apparently become less and less attractive to young students. I think this is a result of a variety of pressures, but it is an unfortunate result and it needs correcting. In the first place, the presentation of scientific and technical subjects at the elementary and high school level can be improved greatly. Science is specialized and perhaps the science teacher requires a more specialized training in science subjects. Perhaps this should be at the expense of education courses which seem to be forming an ever-increasing segment of the teacher's curriculum.

An opportunity to become critical of ourselves

Q *We are presently engaged in a competition, whether we like it or not, with Soviet Russia. How is our science facing up to this?*

A We've been very fortunate recently to have the *Sputniks* show up in the sky. This has given us an opportunity to become critical of many of our procedures and plans in science. The critical review means that we are going to attain a better balance than we've had in the immediate past and, indeed, a more effective application of science to the problems of the national defense. In the solution of these problems, as in the case of private research, we are again seeking balance—balance among all of the factors which add up to the most successful use of science for the defense of the country.

Q *How many more scientists and engineers do we need, in view of the Soviet threat?*

A It is a fact that Russia is training about three times as many engineers as we are. It would be wrong to jump to the conclusion that the antidote for this situation is for us to match Russia. Its engineer training is going on at an abnormal rate because Russia started with almost nothing. We couldn't use three times as many engineers in this country at present.

Q *Then the problem is bigger than one of matching engineering school graduates with Russia.*

A We need a balance in basic research, development, engineering and the application of all these functions to the defense of the country. This balance will have to be attained by detailed study. I am sure that the realization will come that we've probably allocated far too small a fraction of resources to the creative exploratory work of basic research. Just as in industry, we have many opportunities in this area that we are not now utilizing to a maximum.

Q *Then the laboratory is an important military frontier.*

A I think it's true that, to an increasing extent, the future technology of defense will come from the scientific laboratory and will originate in basic research. This is a vast change from past practice. If you go back far enough, our weapon technology originated in a blacksmith shop. Now, a great deal of water has passed over that dam and we have to recognize the role of science and technology in the field of national defense. Our solution of this broad problem is critical to the country's survival.

Q *What role should the military play on the scientific frontier?*

A There are people in this country who have been critical of expenditure in the field of basic research by the Department of Defense. We should look at research and development in the Department of Defense in terms of the objectives sought. New weapons and new weapon technologies are going to originate in research, including basic research, and it would be shortsighted and, perhaps, fatal, not to recognize the relationship between this work and our national defense.

Q *Thank you, Dr. Suits.* ■

Everyday Economics

YEARS OF DRIVING may have dulled your awareness of certain fundamentals. It is important to aim high in steering, so that an adequate field of vision can be had. You can do this by sitting erectly behind the steering wheel with your back well supported. Remember to get the "big picture" by observing areas to the rear, far ahead, nearby and on both sides. Give yourself a safety margin with a proper adjustment of speed, so that you can have time to stop. Also leave an open space, at least on one side, so that you can swerve away from sudden danger. Above all, make sure that other motorists can see you.

A prospective customer

A BOOKLET entitled "ABC of Selling to U.S. Government" has just been issued by the Small Business Administration. Written primarily for the small businessman, the booklet deals with a host of varied topics such as sources of bidding opportunities, how to get listed on bidders lists and SBA services available in selling to federal purchasing agencies and their contractors. Free copies can be obtained from your local SBA office or by writing to the Procurement and Technical Assistance Division, SBA, 811 Vermont Ave., Washington 25, D. C.

Guarded heritage

KEEPING your will up to date is a good practice because changes in fortune, birth, deaths and marriages may call for alteration of certain provisions. Changes in law, particularly tax legislation, may make revisions essential. In choosing the executor, bear in mind the complications of the task and the abilities of the party you select. Your executor should be able to cope with problems such as the disposition of real estate and personal effects, the handling of insurance claims and debt repayment, and the solution of tax

questions. Above all, when you draw up your will, consult an attorney to assure its legality.

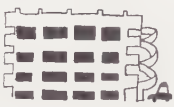
Invisible Gimmicks

HERE IS a suggested method for detecting the use of "subliminal" advertising—(commercials flashed before your eyes so quickly that you are not consciously aware of them, but that find the target in your subconscious mind). These messages can be made visible by looking through extended fingers while moving your hand up and down. However, if this method fails, you can console yourself with the fact that these commercials cannot make you do anything against your will.

Sounds that abound

THE listening room is as much a part of a hi-fi system as is the loud-speaker. Its parts can enhance or suppress the frequency of the best of hi-fi sets. For example, upholstered furniture, rugs and draperies can be detrimental by absorbing sounds, while polished surfaces play a more favorable role in bouncing them back. To have an effective loud-speaker, a built-in baffle is needed to prevent the sound from behind the speaker from interfering with sound issuing from the front of it. The best type of stylus is one tipped with either a diamond or a sapphire. For average listening, a 10-watt amplifier is ample, but if you are an enthusiast, nothing less than 30 watts will do. And, please don't fall victim to the fallacy that all records are of the same quality—blaming variations of sound reproduction on the machine.

It's partly yours

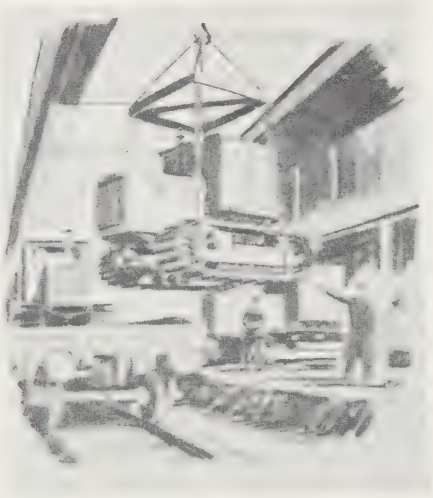


IF YOU want to become a tenant-owner in a co-operative apartment house, you must buy shares in the corporation that owns the whole property. These shares are proportioned according to the size and rental of each apartment. When you purchase an apartment, you receive a "proprietary lease," which entitles you to occupancy for a certain length of time. When this lease expires, you can vote to extend it or sell your share in the corporation. Instead of a fixed rent, you pay an annual maintenance cost—taxes, mortgage obligations, insurance and operating expenses—which is determined on a pro rata basis by the cooperative's corporation board. The tenants elect a new board every year and empower it to appoint the staff that will run the building.—L.B.

Soviet trade and aid programs give new dimensions to the cold war

Russia Turns to Economic Competition

by Abram Bergson



TROUBLED Western governments are attentively observing the progress of a shift in Soviet cold war tactics. Russia and her satellites are supplying increasing economic aid to underdeveloped countries. They are also expanding trade relations with the free world generally. What are the dimensions of the new Soviet economic offensive? Is Khrushchev finally abandoning Stalin's policy of economic self-sufficiency? What can we do to counter the Soviet campaign?

The Soviet bloc offensive is perhaps less impressive than the attendant Soviet publicity might suggest. Under Stalin, self-sufficiency had been carried far indeed. In 1952, the year before the dictator's death, Russia, China and the East European satellites accounted together for only 1.9 per cent of the free world's exports and two per cent of the free world's imports. Total trade with the free world of the entire bloc (population, nearly 900 million) was less than the trade conducted by Italy (population, 48 million).

Under Stalin's successors, the bloc has picked up its trade with the free world from these abysmal levels, but one wonders whether Stalin himself would have been especially perturbed at the results. In 1956, Russia, China and communist Eastern Europe still accounted for only 2.7 per cent of the free world's exports, and only three per cent of the free world's imports.

In the three years between 1953 and 1956, Russia and other bloc members extended or agreed to

extend to countries of the free world about 1.1 billion dollars in development and other credits, including an estimated 250 million dollars of arms credits to Egypt.

This is not a small sum, even today. But in the single fiscal year of 1957, the United States government supplied foreign credit and grants totalling 1.6 billion dollars. This included our so-called "defense support" funds, often indistinguishable from economic aid. We also are lending foreign countries some of the proceeds of our sales to them of surplus farm products. We granted in fiscal 1957 an additional 2.2 billion dollars of foreign military aid, while American private investments abroad recently averaged several hundred million dollars annually.

But global figures are often deceptive, and the bloc economic offensive is a case in point. In the language of Wall Street, Khrushchev is shopping for "special situations." He is concentrating primarily on poverty-stricken countries of Asia and Africa. In these areas, the communist offensive assumes significant dimensions, even by American standards. In addition to continuing sizable trade with such old commercial partners as Iran and Turkey, the bloc during 1956 accounted for more than 15 per cent of the total trade of Finland, Iceland, Egypt, Burma and probably Afghanistan. Egypt shipped more than one-third of her exports to the bloc. Lately, bloc trade has also risen sharply with India, Syria and Indonesia, although the sums involved were still small in 1956.

Besides her aid on the 115-million-dollar Bhilai steel plant, Russia has now agreed to carry out 126 million dollars of new industrial and other development projects for India over the next several years. Our own International Cooperation Administration has lately been supplying India with about 60 to 70 million dollars in development aid yearly. Since 1956, we have also given India much additional aid in the form of farm surpluses, but the funds we advanced for this purpose have already been largely exhausted.

Aside from India, the 1.1 billion dollars of bloc credits have been going mainly to Egypt, Indonesia, Syria and Afghanistan, all countries where, as in India, our own and other free world aid programs lately have been relatively limited. In Asia, much of our economic aid goes to Korea and Vietnam. Africa is relatively neglected.

Russian engineers and technicians are becoming a familiar sight in many countries. Russia provided India, in July 1954, for example, with the services of three diamond-mining experts. Soviet

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technicians assembled the lightweight tractors which the Russians shipped to India in the same year. During 1955, nine Soviet technicians went to India to survey Indian mineral resources. Reportedly some 90 Soviet engineers and technicians are helping the Indians at Bhilai, and Soviet technicians are in Afghanistan.

What of the future? Through his new campaign, Khrushchev is seeking to penetrate certain "target" countries and to limit Western attachments. He has little reason to be dissatisfied with the results achieved to date.

Impatient and suspicious

Impatient to alleviate their impoverishment and often suspicious of the West, Khrushchev's target countries, not surprisingly, welcome his trade and aid. The welcome is the warmer in view of the favorable credit terms. Khrushchev usually charges only two to 2.5 per cent interest on Soviet credits. Although his aid takes the form of loans rather than grants, the borrowers can avoid troublesome foreign exchange difficulties by repaying in goods. The newly independent countries also appreciate Russia's willingness to confine negotiations to commercial questions without dragging in political and military conditions.

We have heard much in the U.S. of the misadventures of the Burmese under their 1955 trade agreement with Russia. Fuller inquiries than were made at the time suggest that, because of their failure to specify proper packaging, the Burmese themselves are partly to blame for such mishaps as the hardening of Russian cement in Rangoon harbor. Reportedly the Burmese were also disappointed with lagging Soviet machinery deliveries. But while business with Russia has its difficulties, many countries are doing it on an expanding scale. In August 1956, the bloc had in force with the countries of Asia and Africa 90 trade and payments agreements, compared with 68 at the end of 1955 and 29 at the end of 1953. In the last months of 1957, Russia signed new aid agreements with Syria, India and Egypt.

Khrushchev must be especially gratified with his accomplishments in the Middle East, where, in fulfillment of historic Russian ambitions, he may be gaining the much sought-after strategic foothold.

If Khrushchev wishes to continue to expand trade with the less advanced countries, he will have the means to do so. As the world's second industrial power, Russia now produces on a large scale the metals and machinery that these countries need for their development. Steel means industrial strength. In 1956, the Soviet Union

produced 49 million tons of this metal, still far below our 1956 output of 105 million tons, but more than the production of Germany and Britain combined.

After decades of forced industrialization, the Russians have reduced industrial production costs. While seeking influence, Khrushchev probably can also profit economically by exporting industrial goods in exchange for scarce raw materials, such as rubber and tin, and for the farm products he still finds difficult to raise in the USSR.

Economic self-sufficiency

Khrushchev does not want, any more than Stalin did, to become heavily dependent on world markets; but he is applying the principle of economic self-sufficiency more flexibly than Stalin did. He feels that he can expand trade materially without serious sacrifice of Russian security. A relatively large volume of trade, which makes a less developed country a dependent country, need only be a relatively small volume of trade for industrialized Russia.

While seeking to continue with accelerated industrialization in Russia, Khrushchev is also endeavoring to raise Soviet living standards above the depressed levels that Stalin allowed. He is also extending some aid to other bloc countries. Together these aims pose a difficult task, and in pursuing it, Khrushchev has no great abundance of capital to spare for foreign economic aid in the form of credits outside the bloc. But he has probably devoted to this purpose less than one per cent of Russia's new capital supplies, and he is able to increase this amount if he feels it worthwhile. If necessary, he can do so by slowing the rise in Russian living standards. With 721,000 engineers, more than the United States has, and with corresponding numbers of other technicians, Russia also has ample means to expand Soviet technical assistance to the less developed countries.

Khrushchev's aim is to win friends and influence people. But, are not his aid and trade at the same time buttressing non-Communist governments? Should we not therefore welcome the bloc economic offensive? If we are often perplexed in foreign affairs, the Russians must be also; but Khrushchev apparently feels that on balance he is the gainer from his economic offensive. Few authorities in this country would care to contradict him. The sober Committee for Economic Development, for example, warns that the bloc offensive poses a "new threat to the free world."

How can we counter the Russian campaign? Our global aid program is large, but we are making only a limited effort in vital

areas. U.S. foreign economic assistance is no panacea. Yet, further aid would contribute, for example, to the fulfillment of India's second Five-Year Plan. Asians generally are following the economic progress of 375 million Indians and are comparing their achievements with those of Communist China.

Khrushchev has no desire to see China suffer in this comparison, but hopes by limited investments to win friends in India. Large-scale American aid would favor Indian political stability.

We possess a potent cold war weapon with a national income two-and-a-half to three times as large as Russia's and equal to about two-fifths of the total for the world as a whole. Under our current penny-pinching policies, we fail to exploit it effectively.

We cannot prevent Russia from increasing her trade with the free world, but there is no need to encourage this process by denying our markets to our friends through "creeping protectionism."

We can scarcely afford to heed those who tell us to limit out efforts in the cold war to countries which are committed to a Western free-enterprise system. The proponents of this view are not explicit; but apparently little or no aid would be extended, for example, to Nehru's India. Those who urge this might find it illuminating to ponder Khrushchev's unwillingness similarly to limit himself to aiding Communist economies.

In determining our aid policies, we cannot neglect political and military aspects, but we might often gain from a greater concern for the sensitivities of the newly independent countries where such matters are in question. We might also ponder the obvious appeal of the Soviet loan arrangements, especially the low interest rates and the favorable arrangements for repayment. Given these terms, the underdeveloped countries may often prefer loans to grants.

Khrushchev is experiencing difficulties of his own. Yet, communism dominates 900 million people and threatens many more. We are properly concerned today about the Soviet drive for technological superiority, but however successful we may be in countering this, we can still lose the cold war in Asia and Africa.

We seem still to underestimate the challenge. ■

Soviet Beer Belongs There

THE GRADUAL increase in available consumer goods has given an impetus to Soviet advertising. Window displays, neon signs, highway billboards, popular and trade magazines, newspapers and other communications media now carry the Soviet merchandising message. However, we are still ahead, since they haven't produced a Bert and Harry yet.

Challenge Personality-of-the-Month

John Kenneth Galbraith—Countervailing Economist

THE economic structures of the world seem to have dissolved into mobile bundles of energy, and the prudent citizen is in chronic need of a minimal firmness in his planning. He is accordingly grateful when the specialist in economic arcana brings them out into the light.

John Kenneth Galbraith, 49, a Harvard professor of economics, is one of the few members of his profession who have learned the graceful art of uncondescending conversation with the layman. A Canadian by birth, he has become the outgoing American, writing engagingly with attention to mood as well as matter.

Another economist, however, recently articulated the feelings of many of his fellows when he criticized Galbraith for his lay missionary work. The critic insisted that the layman was not competent to judge economic questions formulated in the cryptic, mathematical language of the specialist. Before the issues are discussed by the public, "experts should settle their controversies among themselves."

The comment has the charm of inconsistency because the critic himself has used the pages of CHALLENGE to address the layman. But any layman conscious of his rights could fend off the attack by quoting the idiocies of contemporary economists on the 1929 crash. He needs no Clemenceau to remind him that economics is too important to be left to economists.

The economists do have a right to an exclusive area of controversy, but it is the narrow area of techniques and semantics. When the economist has something important to say, he must learn to talk to the layman. Galbraith makes the point that the

With each issue, CHALLENGE profiles a person whose thinking affects the pace of the United States economy.

late President Franklin D. Roosevelt was more effective in dealing with the depression because he was unencumbered with the obsolete knowledge of economics.

Galbraith's major contribution, delivered in a style lightened by his training as a magazine writer and editor, is the concept of countervailing power, expounded in his book, *American Capitalism.* Galbraith wrote that every monopolistic concentration of power evoked a countervailing power: "In the ultimate sense it was the power of the steel industry, not the organizing abilities of John L. Lewis and Philip Murray, that brought the United Steel Workers into being." Monopoly brings its own antidote.

But Galbraith was aware that the problem was not that simple, and he conceded that inflation permitted a conspiracy of the major groups against the common good. Thus, big business and big labor could agree to excessive wage increases and pass on the costs to the consumer. But the Galbraith *caveat* opens more possibilities than he cared to discuss.

Is inflation a necessary condition for the great power groupings to use their power? As modern technology encourages greater concentrations, will not the masters of these concentrations discover more common interests among themselves and less identity with the unorganized? Galbraith arrives at the brink of a big issue, but he is selective about the vistas he sees, despite practical experience, including government work during and after World War II.

Galbraith was similarly selective in his book, *The Great Crash:* ". . .for 1929 was a year of many marvels. . .and one can relish the varied idiocy of human action during a panic to the full, for, while it is a time of great tragedy, nothing is being lost but the money." The writing, charged with illuminating connotations, deserves honor, and the insight is valuable.

But the phrase, like the rest of *The Great Crash* and the concept of countervailing power, fails to exhaust the irreducible verities of the situation. Something *more* than money was being lost in 1929. Men blew their brains out and governments legislated to the same purpose. The world commenced the bumping slide that took it into World War II.

Countervailing power and the Great Depression are more complex than Galbraith admits. But the Galbraith studies contain nothing beyond the understanding of the layman, as the economist-critic charges. The layman grasped the point about the depression better than the professional economists during that time. He may do as well about the concept of countervailing power.—D.F.

Dollar shortages represent growth pangs of a world in swift economic change

THE DYNAMICS OF THE TRADE GAP

by Edwin P. Reubens

DURING the past year, a rash of trade disorders broke out in a number of countries, with imports of goods and services exceeding exports conspicuously in such diverse lands as France, Japan and India. All these countries are now suffering from a shortage of foreign currencies to pay their current obligations. This is due not only to the bad old dollar shortage, which has repeatedly plagued the world as far back as the 1920s, but also to a remarkable new scarcity of German marks, reflecting West Germany's huge export surplus.

In recent months there was a sharp devaluation of the already shrunken French franc, while rumors of an impending devaluation of the British pound brought a wave of speculative exchanges of pounds for German marks. The International Monetary Fund, which had been virtually inactive for years, suddenly provided more than one billion dollars in temporary help to its members, hoping to limit a widespread tendency to tighten up tariffs, import quotas, exchange controls and all the other restrictive regulations.

The Western world is apprehensively watching the slackening U.S. boom, for there is a proverb that "when the U.S. sneezes, all the world comes down with a cold." The world system is dangerously weak, even though international trade is at a high level, with trade crises recurring every two or three years since the end of World War II. The malady is particularly acute now, for the Soviet Union and its satellite countries have recently appeared on the world scene as eager traders and lenders pursuing every ailing nation.

Why is the Western world susceptible to these periodic maladies of trade and payments? Are the causes basic and impossibly difficult to change? Or are they arti-

ficially induced by foolish policies, and equally curable by a simple change of policy? Different types of diagnoses, each bearing its own prescription, are current today: one is a pragmatic or ambulance-service approach; a second is an idealistic back-to-nature movement; a third is a psychosomatic theory of economic overindulgence; while a fourth is a deep surgical approach leading to complete reconstruction.

According to the pragmatic approach, the trade disorders are due to a great variety of random factors, different factors operating in each instance. Thus, the world's trading pattern during the past decade has been dislocated by the Korean war and the Suez crisis. Certain countries have been favored or hurt by weather conditions in agriculture like the exceptionally favorable monsoons during India's first Five-Year Plan, or by technological changes, like the development of synthetic products. According to this pragmatic philosophy, the best policy would be no policy other than the maintenance of an economic ambulance service, standing ready to cope with an epidemic of imports. It could impose various quarantines, like quotas and tariffs, or it could give short-term transfusions from the International Monetary Fund.

This approach is valuable, if only because it reminds us that a great many unpredictable physical and social forces of an uneconomic character influence the behavior of international trade and finance. But it underestimates the persistence of the international maladies, and it overlooks the fact that diverse sources of infection seem to produce much the same economic reactions in different countries. There are some durable underlying relationships which remain to be treated by settled policy.

"Artificial" ailments

Contrasting with the opportunistic approach is a traditional concept that persistent economic ailments exist, but are essentially "artificial" in that they have been caused by public interference in private economic affairs. If only the tariffs and other government controls could be cleared away, the natural forces of economic competition would soon bring all relations into healthy adjustment, in accordance with a kind of "natural law." This is the idealistic philosophy behind *laissez faire* and the old gold standard, as well as back of the Reciprocal Trade Agreements, GATT (the General Agreement on Tariffs and Trade) and the Benelux customs union.

This concept has virtue because

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it emphasizes that we live in a social world framed by policy, and that specific policies may be short-sighted, selfish and in the end harmful to the whole community. But the great limitation of this concept is the supposition that there exist immutable conditions of "comparative advantage." This doctrine brushes aside the deep dissatisfaction of many nations with the existing conditions, and ignores the real possibilities for transforming those conditions.

A less idealistic version of natural law is found in our third doctrine, which contends that international maladies are, in moralistic terms, the wages of sin accruing to nations who attempt to "live beyond their means." When the total of all consumption and all investment in a country comes to exceed the national output, there will be a rising demand for imported goods and a decline in goods available for export. Domestic inflation arises and intensifies these trends, for a domestic price rise makes foreign goods and services cheaper, and makes domestic products dearer and harder to sell abroad.

Stern economic virtue

According to this diagnosis, devaluation of the currency may be necessary immediately—to promote exports, by making them cheaper to foreigners; and to reduce imports, by making them more expensive to domestic buyers. But ultimately the only effective therapy is said to consist in tight credit control and heavy taxation, designed to reduce consumption and investment. Today, France is held up as a horrible example of living beyond its means, while West Germany is cited as an example of stern economic virtue.

This diagnosis is accurate, if the domestic excesses truly represent additional consumption and investment not related to additional productive efforts. But in many countries like France or India, the tendency to live beyond their means arises from the drive for progress under conditions of full employment or from specific bottlenecks.

A deflationary policy of tight money and severe taxation would run into double objections. First, it would work only by making a drastic cut in levels of living, and by creating unemployment and distress. Secondly, it would reduce the national defense effort and eliminate much of the investment in modernization on which rest the country's hopes for future well-being.

All these considerations point toward our fourth doctrine, the surgical approach: that underneath the accidental, the misguided and the inflationary influences upon foreign trade, lies a de-

fective skeletal structure of the international economy. One of the most important structural disturbances arises here in America, namely, that the very size, efficiency and dynamism of our economy create dollar shortages and other problems for the rest of the world. American goods are in great demand all over the world for reasons of price and advanced design, as well as style and quality. Yet, sales of foreign goods to the United States are limited, partly by our tariffs and a few quotas, but above all by the wide range and the superior competitive power of American agriculture and industry.

Flourishing demand

At the same time, our net export balance in merchandise and services is aggravated by our net receipt of income on our outstanding foreign investments. This export excess is not adequately financed by a corresponding outflow of private capital, since the outflow is restricted by the flourishing demand for capital at home as well as by the many discouraging conditions abroad. Since 1945, the federal government has transferred to foreign countries more than 50 billion dollars' worth of intergovernmental aid, which in effect financed the greater part of our export surplus over those years.

From these characteristics of the American economy, many Europeans—and some Asians and Latin Americans—are increasingly drawing the implication that their countries are economically too small and exclusive. They are deciding that they must not only modernize individual industries, but above all must create large organic units. Thus, the Schuman Plan unifies the coal and steel industries. The European Common Market is to begin next year not only with a series of steps to reduce trade barriers among its members, but also with an investment fund, a training and migration agency, an antimonopoly commission and other institutions to promote mobility of the factors of production.

A second major structural disturbance in the world economy is the position of the underdeveloped countries. Comprising two-thirds of mankind, they have a miserably low level of output per capita as a result of inefficient methods which use much labor and little capital. They are, moreover, subject to the pressure of ever-increasing populations. Unfortunately, their position is becoming relatively worse because the growth of per capita output is much more rapid in the advanced countries.

The poorer nations are paralyzed in a situation of poverty which prevents access to the means of abolishing poverty. For a cure,

foreign aid is required on a massive and continuing scale, although the amount could be considerably reduced if international agreements could maintain a stable and remunerative world market for the primary products these countries produce. The advanced nations are called upon to make the heroic effort of tolerating protective policies in the developing countries, while opening their own doors to the new foreign products. The advanced nations must alter their own industrial structures in the direction of greater specialization in the more advanced fields.

A third important structural feature concerns the Soviet bloc in the world economy. After 1945, when the satellite countries disappeared behind the Iron Curtain, Western countries felt the consequences in reduced supplies of foodstuffs and raw materials and in reduced markets for manufactured goods. Now the Soviet bloc has reappeared, but as a state trader who sometimes drives hard deals and often is ready to ignore the normal "businesslike considerations." All these practices are carried on in the apparent hope of drawing needy and desperate countries into the Soviet sphere of influence.

We have recently seen the results in the inflamed Middle East, and lately Japan has begun to feel the pressure of Chinese economic competition in the Far East. To offset that threat will require a great new program on our part, embodying a positive reconstruction of international economic relations.

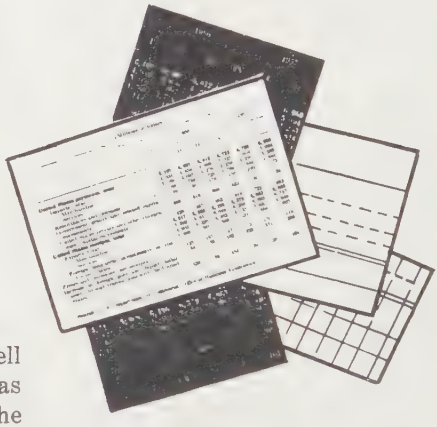
Any instance of an international malady can be attributed to random shocks, artificial governmental interferences and prolonged crutch-supports or to excessive self-indulgence. But the corresponding treatments may not work very effectively as long as there are deeper-lying structural disorders which continue to throw up the more obvious monetary symptoms. Such disorders cannot be cured without large and often painful operations involving a great deal of money, goods, time and human effort. ■

How's This For a Tickler

A NEW YORK manufacturer has come up with a unique method for making the name and phone number of his firm stick with prospective clients. His salesmen are supplied with pressure-sensitive cards which tingle unforgettably with the customer's grasp. To play it safe, the salesman drops another card near the phone in case the customer's fingers are a bit numb that day.

In spite of the flow of statistical materials, we still lack an integrated measure of the national economic health

Too Many Statistics?



William H. Chartener

ECONOMISTS are almost as well supplied with statistics as baseball writers. During the course of a year they are deluged with figures on production, employment, incomes, sales, inventories, prices and financial transactions. Their problem is to put together the welter of statistics so that they make sense.

This is the job of our national accounts—to organize the mass of data on the operation of the economy in a way that gives those responsible for planning in government and business some perspective on what is happening. Like the accounts of any business firm, the national accounts should give a clear picture of the strong and weak points of our national economic scene, as well as indicate the relationship among the various parts of the complex economic organism.

Economists can now choose from five different systems of national accounts, but they are not fully satisfied with any of them. From the way the figures are reported, there is no easy way to use these various systems to complement one another. This is an historical accident, for these accounting systems were developed by different people to accomplish different purposes. The basic data, moreover, come from different sources.

•The most familiar of all these systems is the *national income and product accounts.* These show, on the one hand, the value of all the goods and services produced by the nation (gross national product) and, on the other, the way the value of this output is distributed among various groups in the form of incomes earned through

their contribution to production.

•The *flow-of-funds statement* emphasizes money transactions rather than production and income. It shows the dollar amounts received by various groups in the economy—households, business and financial enterprises and government—and the use they make of these funds. This system is very useful to bankers in calculating the amount of capital available for investment.

•*Input-output tables* are a way of tracing in great detail the movement of raw materials and finished goods and services from one industry to another. The "output" of one industry is the "input" used in production by other industries. The tables go much deeper than the broad accounting provided by the national product and flow-of-funds statements.

•The *national balance sheet* is a listing of the tangible and intangible assets and liabilities of the nation as a whole and of various economic groups. It shows the amount of debt in the various sectors of the economy and thus serves as a barometer of economic health.

•The *Balance-of-payment tables* serve the specialized purpose of accounting for the exchange of goods, services and capital between the U.S. and foreign countries. The basic idea of comparing imports with exports goes back to the mercantilists of the 17th century.

Many business firms have discovered that their own volume of sales bears a close relation to gross national product or sometimes to personal income. They can make good forecasts of their sales prospects, and schedule their production accordingly, from expert forecasts of gross national product.

Estimates and forecasts of personal incomes and corporation profits have similarly proved to be tremendously helpful to the Bureau of the Budget, the Treasury Department and Congressional staffs in forecasting federal tax revenues. These accounts are now being used by state and local governments in making up their budgets. By indicating the nation's general economic health, the national product and income accounts also provide a framework for the Council of Economic Advisers and the Federal Reserve Board to consider measures to stimulate, or to slow down, economic activity.

Military planners, especially in the Air Force, have shown interest in the input-output tables, which reveal much about the organization of U.S. production and the ways it could be revamped, in case we needed to change over to

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all-out defense production.

The flow-of-funds and national balance sheet approaches are still too new to be widely used. But banks, insurance companies and other financial institutions have shown keen interest in the information they provide.

The complaints

What, then, are the complaints about our present systems of national accounting? And how should they be improved?

One of the commonest complaints is that reports are not made often enough, or soon enough. Only two of the accounting systems—gross national product and balance of payments—are published as often as quarterly. The flow-of-funds statements and national balance sheets are drawn up annually. And the only really extensive input-output table ever made—for 200 different industries—was for the year 1947.

Another objection that has been raised particularly with respect to the national income and product accounts is that the figures first published are subject to extensive revisions. After several months, figures may be increased or decreased substantially. The reason is that some of the components of national income must be *estimated* until records such as tax returns become available.

Some of the estimates that go into the national accounts, furthermore, can be checked only infrequently, as in years when a census is taken—or perhaps never. Accurate figures on the operation of small businesses are especially hard to come by because smaller firms are not required to keep all the records and make all the reports large corporations must make. Figures on construction activity and business inventories also are weak.

Pure guesswork

One form of estimating that leads to problems is known as "imputation." A good example of this is the treatment of homes that are occupied by their owners. The national product has a figure for the value people receive by paying rent for an apartment or house. Therefore, it seems reasonable to have a figure for the value people receive by living in a home they own, even if they are not paying off a mortgage. This value is estimated, or imputed, on the basis of prevailing rents for similar homes. Another case of imputation is the value of food that farmers grow and consume on their own farms. Such figures must necessarily involve a large amount of pure guesswork.

Inflation gives headaches to the keepers of the national accounts. All the five major sets of accounts are expressed in terms of dollars,

but the physical quantities these dollars can buy may change from year to year. Unfortunately, no single price index can be used to adjust for the changing value of the dollar, because no index available covers the wide variety of goods and services included in such a broad field as gross national product.

Some adjustment must be made, however; otherwise an increase of, say, 20 billion dollars in gross national product in a year of inflation will show the economy growing at a much faster rate than is justified by the facts. Thus, the Department of Commerce makes its own estimates of the appropriate adjustments for each sector of the national product and expresses the total GNP in dollars of constant value.

Constant-dollar estimates

The official estimates of national product in constant dollars—with effects of inflation removed—are made, however, only once a year, while the unadjusted current-dollar figures are reported quarterly. In a recent survey of statisticians and economists, the most frequently mentioned request for improvement was that these constant-dollar estimates be made every quarter.

Some statisticians are bothered by inconsistencies in certain items, consumer durables, for example. If a commercial laundry buys a washing machine, it is recorded as an investment, since it will be producing a service-giving value over a period of several years. But if a housewife buys an automatic washer, it is just the same as the purchase of food or clothing as far as the national accounts are concerned, even though she will be using it for years. This inconsistent treatment, these statisticians assert, tends to understate the amount of investment going on in our economy.

Finally, many economists think it should be easier to go from one set of national accounts to another. The gross national product takes account of goods and services only at the final stage; it excludes all the intermediate stages of production so that things will be counted only once. The input-output table treats raw materials, semifinished and finished goods alike.

Another difference in concept is that the emphasis is on *products* in the input-output table and the balance of payments, while it is essentially on forms of organization like households, corporations, banks and governments in the other systems of national accounting. There are times when a combination of these two approaches would be illuminating.

The need for improvements is recognized by the agencies that now develop our national accounts

—the U.S. Department of Commerce, the Federal Reserve Board and the National Bureau of Economic Research. The Budget Bureau and the Congressional Joint Committee on the Economic Report want better data in their analysis of economic trends.

The most important needs are better basic data, more detail in the accounts of various economic sectors, faster and more frequent publication, and the development of ways to integrate the different systems of accounts. An expert committee organized by the National Bureau of Economic Research at the request of the Budget Bureau has proposed that a start be made at tying in the other forms of national accounting with the national income and product accounts.

The biggest obstacles are the small resources of the agencies that draw up the accounts and the fact that our national accounts have grown up independently from one another. The division of the Commerce Department that produces our national income and product accounts, for instance, is compelled by its limited budget to do its work with a staff of only 39 people, fewer than in 1950.

One of the best hopes for improving the national accounts is the introduction of high-speed electronic computers, which can organize a formidable mass of statistics in minutes. But even if this does speed up the calculation of our national accounts, much of the fog that prevents economists in government and business from knowing what is going on in the economy will remain. We will need still better basic figures and better ways of putting them together.

Economists are gingerly discussing the possibility that the national accounts might one day be organized into a unitary system. But before they can consolidate the five present types of accounts, they will have to agree on many factors and definitions they now see differently. They would, for instance, have to redefine interest, which is now considered a transfer payment in governmental matters and income in private business. Better data are needed, in any case. Certainly, the great disparity in accounting concepts promises an interesting family quarrel among the economists for a good time to come. ■

A Few for the Housewife

- YOU CAN FRY more bacon in less time if you crisscross the slices.
- YOU CAN SAVE on soap flakes by whipping them with an egg beater.
- COLORED HANKIES dipped in salt water won't fade.

The Permanent Frontier: No. 5

Federal government emerges; centralization provokes party ideologies and defines politico-economic goals

POLITICAL INDEPENDENCE, now a *legal* reality, had achieved but one objective. The Americans were legally free to solve domestic difficulties by whatever means they chose, but their trade was still largely dependent on Europe. The competition of British, French and Spanish territorial ambitions in North America reflected the changing balance of power in Europe, and stimulated partisan strife on the domestic political scene.

The generous terms of the Treaty of Paris (1783) had not been fulfilled. England refused negotiation of a regular trade agreement. Prewar debts to Englishmen and Loyalist property rights were not honored; in retaliation, Britain continued to occupy the Northwest posts. The United States also acquired Britain's disputes with Spain, involving navigation of the Mississippi, the southwest boundary between the United States and Florida, and the Indian forays from Spanish territory. Nevertheless, the American tradition of union in the face of a common danger which had begun with the New England Confederation (1643) and culminated in federal government, proved stronger than the European power struggle and the domestic strife which that struggle aggravated.

The Constitution, and the federal government that it spelled out, gave direction to the continuing domestic revolution. Conflicts between the East and the frontier, the commercial North and the agrarian South, predestined a continuing struggle between land and capital, debtors and creditors. Now that political independence from Britain had been established, the delegates to the Constitutional Convention had scant patience with the leveling and confiscatory demands of agrarianism and popular democracy. The document which they wrote favored a government which would so *balance* agrarian and commercial interests that neither would

be able to achieve an undue advantage. Constitutional reconstruction was characterized chiefly by separation of powers and a system of checks and balances on the arbitrary exercise of power.

Federalism

Closely associated with the idea of balanced government was the concept of federalism: a compact among states that calls for each of them to yield certain elements of sovereignty to the federal government. The forthcoming dispute between the Federalists and states-rights was an inevitable outgrowth of this concept.

Before ratification, however, there was little organized opposition to centralized government. The Federalists prevailed over the misgivings of debtors and other advocates of state sovereignty. In this, the Federalists were largely supported by the faction which Alexander Hamilton paternalistically described as the "first class" —financiers, industrialists, merchants and public creditors, speculators in Western lands, officers of the Revolutionary army, the clergy and most of the press. These groups sought a centralized government that would restore the nation's credit. In this way, they hoped to combat the disruptive demands of paper money advocates and debtors whose campaign for the cancellation of their debts would probably have overwhelmed the more timid state governments. Federal government protection of industrial development and increased commercial activity—the guarantee of specific federal powers and a much amplified scope of government activity—characterized the Federalist party policies that dominated the administrations of Washington and John Adams. As an organized political party, however, Federalism did not come into being until the split between Hamilton and Jefferson (1791) over assumption of state debts, chartering the United States Bank, the excise tax, foreign policy and the other centralizing tendencies of Washington's administration (1789-97).

The proposed Constitution appealed to the growing popular instinct for law and order recently aroused by Shay's Rebellion, and the still dormant American nationalism. Indeed, the most persuasive argument which the Federalists had to present in defense of the new Constitution was the vigorous foreign policy it would afford against British sea power, British harassment of American shipping and Spanish intrigue in the West.

The primary problems of Washington's first administration were

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This is the fifth article of a series in CHALLENGE which deals with the history and development of the United States economy.

fiscal. For this reason, the work of Alexander Hamilton, first Secretary of the Treasury, is particularly noteworthy. Hamilton's financial policy was conditioned by his conception of the chief governmental problem in 1789—federalism versus particularism. Although he has often been criticized for favoring aristocracy, Hamilton's policies were conscientiously designed to advance the principles of a well-ordered and prosperous *national* economy. His politico-economic objective is perhaps best stated in his conviction that the guarantee of prosperity depended on "increasing the number of ligaments between the government and interests of individuals," in order ". . .To justify and preserve their (creditors') confidence; to promote the increasing respectability of the American name; to answer the calls of justice; to restore landed property to its true value; to furnish new resources [of capital investment], both to agriculture and commerce; to cement more closely the union of the States; to add to their security against foreign attack; to establish public order on the basis of an upright and liberal policy; these are the great and invaluable ends to be secured by a proper and adequate provision, at the present period, for the support of public credit."

Credit had to be re-established, the debt retired. Hamilton instituted import duties and excises to provide interest and amortization on the foreign debt, the domestic debt and state debts of Revolutionary origins. These obligations totaled more than 77 million dollars; a sum that may seem trivial now, but one sufficient to give pause in the 18th century.

Nation's credit

While few people objected to the payment of the foreign debt, controversy broke out over Hamilton's proposal for the assumption of the old domestic debt. Against those who thought it unnecessary to pay arrears of interest (on the foreign debt) amounting to 13 million dollars, he argued that such payment was necessary to secure the nation's credit. Redemption of the domestic debt at full specie value was bitterly opposed because it was believed, with cause, that speculators, rather than the original creditors of the Continental and Confederation governments, would benefit. Hamilton contended that *security of transfer* was a requisite characteristic of the national debt, and was essential to the establishment of public credit.

Hamilton also advocated that the federal government assume the state debts which had been incurred during the Revolution. Two sets of circumstances constituted

the opposition to this proposal: those states whose debt was large would be unduly favored at the expense of others; and, again, Southerners particularly (with most of their bonds in Northern hands) complained that speculators, rather than the original holders of depreciated securities, would profit if the bonds were redeemed at par value. When defeat of the Assumption Bill seemed certain, Hamilton made the compromise with Jefferson that awarded the capital site to the South and secured enough Southern votes for passage.

Hamilton's proposal for the chartering of the United States Bank capped controversial issues and crystallized party allegiances. Jefferson charged the proposed Bank with being monopolistic, an unfair competitior of the state banks. In this context, it was labeled "unconstitutional," bringing to the fore for the first time the issue of strict versus liberal interpretation of the Constitution, and the doctrine of "implied powers" cited by Hamilton as justification for a federal bank. The power to create such a bank was *implied* by the "necessary and proper" clause; and "necessary," Hamilton contended, meant only "suitable." A national bank would be a *suitable* means to carry out the enumerated federal responsibility in the fields of issuing currency and establishing credit.

Hamilton's recommendations prevailed. It is most doubtful if any of the counterproposals of the time would have so furthered the nation's credit both at home and abroad. For the nation's future economic development, this was the most important achievement of the period. Money came out of hiding, and the country entered its first era of business prosperity, and with prosperity came confidence in the new Republic.

Enforcing the law

Assumption's triumph required additionally large revenues. In 1791, Congress imposed a heavy excise on spirits distilled at home. The "Whiskey Rebellion" broke forth in the form of insurrections and vehement State resolutions condemning the tax. On Hamilton's advice, Washington called out the militia and restored order. Increased revenue, however, was not the most important result of the Whiskey Tax. Rather, it was that the new government had shown itself able and determined to enforce its laws.

While the functions of the Republic were being contested on the domestic scene, the nation was being treated intermittently with disrespect by Britain, France and Spain. Just a few days after Washington's first inauguration, the Bastille fell. The French revo-

lutionary upheaval at first enjoyed popular sympathy in the United States. But subsequent developments in Europe precluded any U. S. commitment to France.

Before 1793 was over, France was at war with Britain, Spain, Austria, Prussia and several other monarchies. Washington's second administration was preoccupied with foreign affairs. The most compelling question was whether the Americans could avoid being drawn into the European conflict and still obtain settlement of the unfulfilled terms of the Treaty of Paris. And if they were forced to take sides, should it be with Britain, their enemy 10 years before, or with France, their Revolutionary ally?

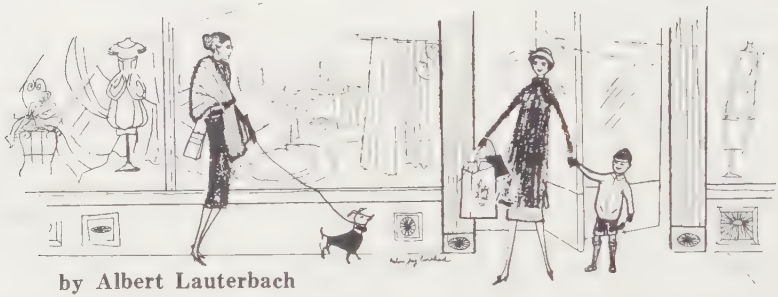
Despite the pleadings of Jefferson, and ardent pro-French sympathies throughout the country, Washington issued the controversial Proclamation of Neutrality (1793). Though not directed against France specifically, the Neutrality Proclamation was, in essence, a disavowal of the Treaty of Friendship and Alliance (1778) negotiated with France at the commencement of her military and financial aid to the Revolution.

Neutrality had no sooner been proclaimed, when the preservation of neutral rights was endangered by belligerent acts on the part of both France and Britain. Their decrees against American shipping resulted in seizure and impressment which offended the American dignity, hampered American commerce, and set into motion forces which could have resulted in a costly war. Troubles with Spain were also mounting dangerously, especially in the Mississippi Valley.

Washington had laid the very foundation for the nation's foreign policy during the 19th century—isolationism and noninvolvement until attack—but in so doing, he attracted to himself and his party (the Federalists), a fierce, often vicious criticism that welled to fanaticism. The government seemed on the verge of collapse, the victim of foreign intrigue and dissension at home. Foreign policy issues deepened the wounds of party strife. The Federalist-Republican conflict would take on still greater dimensions. In spite of its great contribution to the creation of a new nation, the Federalist party would fail to meet the challenge of a crystallizing American tradition. ■

NEXT MONTH: Jeffersonian republicanism reinforces majority government, while "manifest destiny" promises future economic and territorial expansion

Class Lines and Consumers



by Albert Lauterbach

Americans of all classes show striking similarities in buying habits

SINCE World War II, the American economy has been riding a current of prosperity that has maintained its forward motion despite minor interruptions. One result has been a striking change in real income levels in a long-run sense. This has been true of every population group, although the degree of change varies considerably from one group to another.

The 1957 Survey of Consumer Finances showed that the median income of all spending units, which are defined as related persons living together and pooling their resources, had doubled since 1945 in terms of current dollars. Allowing for price increases, their purchasing power had risen about 40 per cent. In 1956, one half of all such units earned 4,250 dollars or more. One-third, it is true, still earned less than 3,000 dollars.

There were considerable differences among occupational groups. The median income of farm operators was 2,320 dollars; self-employed businessmen, 7,500 dollars, and retired persons, 1,350 dollars. In the managerial group the figure was 7,000 dollars; professional group, 6,250; clerical and sales group, 4,600; skilled and semi-skilled workers, 4,940, and unskilled and service workers, 3,000 dollars. There was, however, a considerable spread within each group.

About three-fourths of all spending units reported owning some kind of financial assets, although the size of assets varied greatly according to income bracket and age group. The number of asset holders showed an enormous increase compared with the prewar period, when comparatively

few people had any kind of nest egg.

Do these data indicate, as some believe, that we are all middle-class now? Or, at least, that size and use of incomes have been leveled? This latter conclusion is somewhat closer to the truth, but hasty generalizations should be avoided. Considerable differences remain in income levels, as well as in thrift habits. There are additional variations of great importance resulting from age distribution and number of supplementary earners in a family. Similar differences exist in the degree to which purchases are planned far ahead, in contrast to those made on the spur of the moment.

The fact remains that rising incomes generally, along with standardization and the greater range of products available, have stimulated new buying interests in some of the traditionally less fortunate groups. These new interests have brought them close to the consumption habits of groups that used to be way ahead of them.

The point should not be overstated. The American worker most certainly has not become a millionaire, and he still cannot be sure that his job will be there tomorrow. He has suffered from rising prices like everybody else. If he lives in one of the poorer parts of the country, or if he belongs to an underprivileged minority, he may have a long way to go in order to achieve an adequate standard of living.

But if he has training and skills, and if he has held his job for a while, chances are that he has his own car, refrigerator, television set, a house for the family to live in, a record player, air conditioner, and perhaps, a dishwasher. He can buy a fairly good suit for much less than a week's earnings, and his wife is used to buying nice-looking, if inexpensive, furniture, curtains and dishes at the same department store where a good many wealthier people shop. Her weekly shopping at the supermarket probably includes meat, poultry, eggs, frozen vegetables and perhaps prepared dishes from the delicatessen counter. It is not always easy for the family to make ends meet, yet it manages somehow most of the time. But Social Security and group health insurance may keep a family from financial catastrophe, despite credit commitments.

The European worker is just beginning to catch up as owner of a motor vehicle, for instance, in such countries as England, Germany, Sweden and Switzerland. In America, the working class is no longer identical with

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the low-income class, although the substandard workers' groups definitely belong to it. A similar split goes right through the farm population. The more prosperous farmers have developed buying habits that are not too different from those of skilled workers, modified by the requirements of country life. Poorer farmers and sharecroppers lag far behind.

Barriers have melted

Insofar as consumption habits are concerned, some of the old class barriers have melted away. It is no longer possible to judge reliably from a man's clothing the social and income group to which he belongs; nor is the latest fashion a privilege of the upper-class woman. "Styles" of clothing, like the junior-executive hat, have survived and perhaps extended their scope, but this is a different thing. Sometimes a man may find it advisable to confine himself to buying a car, for instance, that corresponds to his social position, even though he could afford to buy a more expensive one.

At the same time, the boundary line between the consumption habits of workers and middle-class groups has also been blurred on the part of the latter. No longer is the middle-class family likely to have servants; household gadgets have taken their place, and many such gadgets are about as easily available to some of the formerly "lower" groups. Education, even higher education, is no longer the privilege of the middle and upper groups.

"The rich middle-income class," to use a new phrase for a newly discovered group, is by no means a white-collar class only, and the new suburbia is rapidly building up a very diversified population. In some specific fields such *partial* equalization of consumption habits has apparently become a lasting trait of American society. The virtual limitation of domestic servants, other than cleaning women and baby sitters, to upper-income groups has left little difference between workers, white-collar groups and most professional people, although some of the latter have moved up to a high-income level.

Leisure patterns, including entertainment, indicate decreasing differences in general type, although details and costs still vary. Workers and bosses look at the same television programs, go to the same baseball games and movies, and have a drink at the bar, though probably not the same one.

Vacation "styles"

When vacation time comes, members of each group will jump into their cars, go to their fishing or bathing areas over the same highways and stay overnight at

similar motels. Some people will be fortunate enough to fly to Europe or the Caribbean islands, but this will depend far more on the vacation time available than on their annual income. Some students and teachers with very modest incomes will travel much farther, with the aid of fellowships, than many wealthy businessmen who think they cannot afford the time.

Workers and executives alike will work around the house and yard during evenings and weekends, although the house will be much grander in one case than in the other. The executive is more likely to have a nice weekend place on the shore, but the worker may quite well hope to own, one day, a little cottage in the woods, too.

Urban spending habits

The Survey of Consumer Finances showed that in early 1957, 54 per cent of all urban spending units owned homes. In the bracket over 7,500 dollars, the percentage was 79; but even in the income group below 4,000 dollars, it was still about two-fifths. Measured by occupational groups, the proportion in the lowest—unskilled and service—was still 38 per cent.

Other comparisons of consumption habits among income groups could also be drawn: shopping for chickens at the supermarket, receiving friends for drinks and dinner, although the type of liquor may vary, and buying toys for the baby. In a large but probably decreasing number of cases, the quality and price of the goods purchased will still vary markedly according to the income and social status of the buyer, but the *type* of purchase itself will differ far less than it used to.

There are few countries where trends toward broad equalization of buying habits have been as extensive as in the United States. Even in the middle range of economic development, in countries like Italy, Chile or Turkey, consumption differences among social groups are very great in quality as well as in quantity, and in the very underdeveloped countries such as Haiti, Libya or Afghanistan, such differences are abysmal.

Crucial questions remain with respect to the deeper meaning of the American trends and the outlook for the future. Will consumers of all income groups soon settle into their respective consumption levels and acquiesce the limited degree of equalization reached? This is quite unlikely. If social psychology provides a guide, the level of aspirations in all groups will continue to rise indefinitely.

The lower income groups will try even more ardently to catch up with the higher, and the latter will keep raising their sights, even

if they should free themselves increasingly from jealously toward the growing achievements of the underdog. But will the aspirations of *all* groups in America continue to be directed at ever greater material comfort, or will new types of interests gain ground in some or all groups? Will there be more book reading, artistic activities and participation in community service?

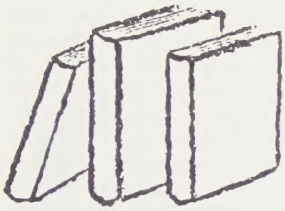
Will age differences in the course of an expanding life cycle become more important than class differences in determining consumption differences? Will the impact on consumption of the "career," or career expectations, diminish as the career becomes a decreasing sector of the total life cycle? Will children retain their dominant role in guiding many kinds of consumption in all groups and in equalizing their respective buying habits? Will a continuing trend toward greater equalization strengthen the mass character of American culture, perhaps leading to "standardized diversity," or perhaps to conformity? Will it give more leeway and power to the Hidden Persuaders, to slick advertising and marketing? Will ever greater consumption and comfort in all groups lead to better health or to softness and degeneration?

Have we been relying too uncritically on a perennial prosperity, perhaps in an inflationary buying atmosphere? Is our entire structure of mass production, marketing and consumption, including the partial equalization, firm enough to withstand occasional reverses? Will it all collapse under the blows of a real depression?

Intellectual values

Likely answers can only be hinted at here. Ways to mitigate business fluctuations are now fairly well established and will probably be used, no matter who is in power. There is hope that appreciation of intellectual and esthetic values will grow as a fair degree of material comfort comes to be taken for granted by ever more people. New gadgets may then no longer appear as ultimate value in life, but as a convenient starting point for really worthwhile pursuits.

Increasing mass comfort need not be allowed to result in physical and moral weakness, nor in the suppression of individuality and of the right to be different. At the same time, mass comfort can be expected to survive *only if* society manages to avoid two great threats: a nuclear war and hectic fluctuations between depression and inflation. If not, the encouraging trend toward mass comfort will have been but a brief episode in the long and eventful history of mankind. ■



READING REPORT

Heritage from Hamilton. With a Selection of Personal Letters. Broadus Mitchell. 160 pp. New York: Columbia University Press. $3.75.

The Jacksonian Persuasion. Marvin Meyers. 231 pp. Stanford Unversity Press. $5.00.

•Alexander Hamilton has enraged the mediocre because of the grandeur of his conceptions and acts. A country as emphatically democratic as ours distrusts the services of an aristocrat, however useful they are. It has been the fashion to regard Hamilton as a hastily ennobled *parvenu* dedicated to selfish interests. Professor Mitchell, in the urbane Columbia University lectures forming his book, shows the range and responsibility of Hamilton's career. The man who could theorize so imaginatively about national unity knew how to help bring it about by a suave marshaling of economic and political forces. Thus, Hamilton turned the states' debts into both political and economic assets by a double effect: the national government took them over, thus speeding a needed centralization, while the new federal debt became the basis for a bond market the business community required. The Jackson book is an exercise in historical methodology that reduces the subject to footnotes. The vitality of Jackson is interred in the author's consideration of what he thinks about Jackson. The book comes to life only when Meyers quotes the illuminating observations of Alexis de Tocqueville. Hamilton created the First Bank of the United States as a useful instrumentality of federal policy; Jackson destroyed its successor bank. Yet Jackson's damaging act was part of a national movement that increased the responsibility of the common people in their government, one element of statesmanship to which Hamilton's talents did not extend. Both men served their country magnificently.

* * *

Automation. Carl Dreher. 128 pp. New York: W. W. Norton. $2.95.

•The principle of automation is as simple as the details and potentialities are complex. An automated system is based on a servomechanism, a machine that can take orders, and a computer, which gives the orders. Thus, a lathe will perform various operations on given impulses from a computer that stores up command information on a tape. Dreher tells the automation story engagingly, but notes that the future looks limited for a Leonardo da Vinci and his excess of nonclassifiable side interests. If machinery can replace many humans, Dreher takes comfort from the

fact that ". . . the most promising combination is creative insight *and* a computer."

* * *

A History of the American Dollar. Arthur Nussbaum. 308 pp. New York: Columbia University Press. $4.50.

•The history of the American monetary system has often been turbulent, and Professor Nussbaum's study demonstrates this point admirably. From the virtual barter system of the colonial period to the complex financial manipulations of the present day, the United States has been plagued by such monetary crises as Shay's Rebellion, the Greenback inundation, the Panic of 1893 and the New Deal bank holiday. The attempts to resolve the problems have sometimes been as rich in fantasy as the problems themselves.

* * *

Veblenism. Lev E. Dobriansky. 409 pp. Washington, D. C.: Public Affairs Press. $6.00.

•Thorstein Veblen skitters about the landscape of American social and economic thought like a dead leaf in a feverish wind. Always in motion, he touched on many things, ideas and people, and the ubiquitous shreds of his work are turned up wherever the student of American life makes his investigations. A Georgetown University economics professor, Dobriansky had the audacity to attempt to view Veblen in a total philosophical focus. He quite properly concerns himself with such matters as medieval scholasticism, but reveals a crippling bias, as much in his selection of references as in his discussion of them. Thus he treats Greek philosophy as an appendage to Thomas Aquinas. Dobriansky is breathless when he finally arrives at his real subject, a condition that does not prevent the use of such overwhelming metaphors as that of a flowing aorta. His pedestrian judgments, which are often sound enough, lose their little dignity before the grandiloquent nonsense of Veblen. It is rather an unkind commentary on American scholarship to note that the often despicable, dishonest and loveless contentions of this cracker-barrel philosopher have had so much influence. Veblen did give the impulse to the valuable work of institutional economics, but much of his effect tends toward morbid nihilism. In Veblen's world, commerce is only swindle, consumption is voided of all content except exhibitionism, and dignity and decency are nonexistent. Dobriansky lacks the imagination properly to be offended by his subject.

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The Economics of Communist Eastern Europe. Nicolas Spulber. 525 pp. New York: Technology Press (MIT) and John Wiley. $12.50.

•To communicate sufficient meaning, the scholar must be more than conscientious; he must be imaginative, even at the risk of error. Spulber has produced a useful handbook for other scholars, but his larger judgment is as defective as his imagination. Thus he left out Eastern Germany for arbitrary reasons, although it is an integral part of the satellite bloc. His serious treatment of the workers' councils in Yugoslavia, a nonsatellite incidentally, makes the reader suspicious. The councils are an administrative fiction which fools the foreign observer but not the workers; fantasy is one of the most ineluctable facts of the Communist world. ■

Challenge Quiz

HOW WELL can you do with this true-false quiz? Test your ability to increase your knowledge through reading. Ten correct answers is Excellent; 9, Good; 8, Average. If you do the quiz *before* reading the articles, 6 correct answers is Good. Answers on page 31.

(1) Paper money first appeared in the American colonies at the start of the Revolution.
True ☐ **False** ☐

(2) Two-fifths of American families with annual incomes under 4,000 dollars own their own homes.
True ☐ **False** ☐

(3) The statistical comparison of imports and exports dates back to the mercantilist period.
True ☐ **False** ☐

(4) Soviet aid to underdeveloped nations has been primarily in the form of grants.
True ☐ **False** ☐

(5) The dollar shortage has been an important factor in world markets for more than three decades.
True ☐ **False** ☐

(6) Recent industrial expansion in Mexico has been financed primarily by foreign investors.
True ☐ **False** ☐

(7) The Bank of England was nationalized during the First World War as an emergency measure.
True ☐ **False** ☐

(8) Arbitration is the solution for the problem of labor monopoly.
True ☐ **False** ☐

(9) U.S. Steel has employed the slogan, "Progress is our most important product."
True ☐ **False** ☐

(10) The foreign policy of the United States was unchanged after the Federalists lost power in 1801.
True ☐ **False** ☐

(11) Tiffany glass is an example of functional design.
True ☐ **False** ☐

(12) Expenditures on research and development are equally divided between private industry and government.
True ☐ **False** ☐

DEPT. OF BETTER MOUSETRAPS

Pet Delights: A dog mist that shampoos and wards off parasites. . .A removable, washable canvas sling bed that is supported on an iron frame. . .A metal dinner pail for birds that holds a pint of food; it has rubber-covered perches for firm footing. . .A bouncing fur ball that is shaped like a mouse for your frolicsome kitty. . .A house-breaking scent that will guide pup to the right place. . .A pet mat that prevents food dish from sliding and absorbs liquids.

* * *

Children's Corner: *A stuffed puppy dog that plays four instruments at once in perfect waltz time. . .A pint-sized hamper that will encourage neatness in the littlest member of the family. . .A kite that dances a merry jig while in flight. . .For the younger child, a train that rides along play-pen rail. . .A plastic whale that is reinforced with glass fibers for the imaginative child. . . A clown pencil sharpener that does its work when you stab the clown in the belly. . .A set of erasers that have the flags of various nations imprinted on them. . .A harmless fire-eater that blows smoke without any visible aids.*

* * *

Around the House: A swinging gate reading lamp that can accompany your shifts in position while in bed . . .A chrome-finished griddle with four wells that prepares pancakes, eggs and low-fat meats. . .A laundry marker that has a spill-proof bottle to prevent loose ink from messing up clothes. . .A nailless hardwood strip flooring that can be put on a concrete slab to appear as if nailed.

* * *

From the World of Industry: *An electric line plotter that converts digital data fed from punched cards into a continuous series of graphic line plots. . .A magnetic tube shield that prevents all outside magnetic interference. . .A plastic film sheet that reproduces drawings which can be read easily by the blind. . .A semi-automatic fluid dispenser designed for laboratory use that eliminates the losses, contamination and guesswork of old-fashioned bottle pouring. . .A plastic polisher-cleaner that improves pilot's vision by removing fine scratches and haze from airplane plastic windshields.*

* * *

Personal Business: For bobby-pin losers, a ceramic cup with a magnetic bottom to hold your bobby pins securely and neatly. . .A pocket-sized adding machine that adds, subtracts and multiplies figures up to the amount of 999,999. . .A leather eyeglass rest with a moire lining that prevents scratching. . .A comb cleaner that contains two rotating brushes which probe between the teeth of the comb and remove all traces of dirt without the aid of soap and water. . .A revolving spaghetti fork that might serve as a unique culinary attraction. . .A compact with a built-in phone dial that serves as a powder sifter.

* * *

Write to CHALLENGE *magazine for additional information.* ■